AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, FRESNO

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

Ag Foundation	The Agricultural Foundation of California State University, Fresno
AS	Associated Students California State University, Fresno
Association	California State University, Fresno Association, Inc.
Athletic Corporation	The California State University, Fresno Athletic Corporation
CSU	California State University
EO	Executive Order
Foundation	California State University, Fresno Foundation
GAAP	Generally Accepted Accounting Principles
ICRA	Indirect Cost Reduction Approval
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IT	Information Technology
LAIF	Local Agency Investment Fund
MIS	Management Information Systems
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
PFC	Fresno State Programs for Children, Inc.
PIF	Project Information Form
PSL	Personal Seat License
UBI	Unrelated Business Income

INTRODUCTION

PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that legal and regulatory requirements are complied with regarding the:

- Formation of the auxiliary.
- Functions the auxiliary performs on the campus.
- Creation and operation of the auxiliary's board of directors.
- Establishment of policies and procedures based upon sound business practices.
- Observance of mandates to maintain an "arms-length" in business transactions between the auxiliary and the campus.
- Campus oversight of auxiliary operations.

In addition, we reviewed internal controls to assure that:

- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, accounting entries, or systems output is reviewed and approved.
- Management does not intentionally override internal controls to the detriment of the overall internal control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- Management seeks to prevent or detect erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives as they relate to California State University (CSU) auxiliaries. For those audit tests that required annualized data, fiscal years 1999-2000 and 2000-2001 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to June 30, 2002. Our primary focus was on internal compliance and controls.

Specifically, for the period reviewed, we examined compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations included within the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus.

Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

The scope of our review, regarding internal compliance considerations, focused on areas which were identified during our preliminary assessment of risks related to the CSU and its requirements to exercise oversight of auxiliaries. (See Appendix B.)

The scope of our internal control review focused on separation of duties, safeguarding of assets, and reliability and integrity of information. Within these, we considered areas of risk identified during a preliminary survey of the campus' auxiliary operations in addition to risks related to the CSU and its oversight of auxiliaries. (See Appendix B.)

We have not performed reviews or analyses beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University and the governing boards of the various auxiliary organizations shall:

- Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- Implement financial standards which will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

Executive Order No. 698, superseding Executive Order No. 682, was issued on March 3, 1999. In that directive, the president of each campus was instructed, in part, as follows:

> Section 2. *Authority and Responsibility of the Campus President*. Title 5, Section 42402 establishes the authority of campus presidents to require auxiliary organizations to operate in conformity with policy of the Board of Trustees and the campus. The president is required to review auxiliary programs and budgets and to require discontinuance of activities not in conformity with policies of the Board of Trustees and campus.
>
> The following Trustee policy supplements the existing policy of Section 42402 and provides an additional mechanism for the president to administer his or her responsibilities concerning auxiliary organizations. Action taken by the Trustees' Committee on Audit at the January 1999 meeting of the Board requires an internal compliance/internal control review to be performed by the University Auditor.
>
> The Office of the University Auditor will perform an internal compliance/ internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets and reliability and integrity of information. This review of each auxiliary organization shall be completed on a triennial basis pursuant to procedures established by the chancellor.

This report represents our triennial review.

OPINION

We visited the California State University, Fresno campus from July 22, 2002, through August 30, 2002, and reviewed the internal compliance and internal control structures in effect at that time. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The campus and management at each auxiliary are responsible for establishing and maintaining adequate internal controls. This responsibility includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy as applicable.

Our audit disclosed conditions which, in our opinion, would result in significant errors and irregularities if not corrected. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls to prevent these limitations would not be cost-effective; moreover, an audit may not always detect these limitations. (See Appendix C.)

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

CAMPUS

LEGAL AND REGULATORY COMPLIANCE [23]

SUPPORT ORGANIZATIONS [23]

The campus had not developed a procedure to identify and a strategy to coordinate and oversee ancillary organizations that operate in support of academic and non-academic programs. Sufficient oversight over ancillary organizations operating on the campus in support of academic and non-academic programs reduces the campus' and the California State University (CSU) system's exposure to regulatory and legal consequences.

ACCEPTANCE OF FUNDS [24]

Campus auxiliaries had not developed written policies and procedures regarding the acceptance of funds. Fully developed and communicated written policies and procedures strengthen internal controls and reduce the risk that misunderstandings will occur.

PUBLIC RELATIONS POLICY [24]

The campus had not established a public relations policy applicable to its auxiliary organizations. Establishing a current public relations policy applicable to auxiliary organizations reduces the risk that funds will be accumulated and used improperly.

COURSE MATERIALS [25]

The campus had not developed written policies and procedures to address the sale of faculty-developed course materials. Fully developed and communicated written policies and procedures strengthen internal controls and reduce the risk that misunderstandings will occur.

PERSONNEL AGREEMENTS [25]

Written agreements had not been established between the campus and its auxiliaries for the assignment of state employees. Maintaining written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

LAND SALE [26]

Proceeds received from the sale of land were not properly administered and distributed by the campus. Proper administration and distribution of proceeds from the sale of campus land reduce the risk that a "gift of public funds" claim could be asserted against the campus or its legally separate auxiliary organizations.

TRUSTS AND OTHER LIABILITIES [28]

The campus did not exercise sufficient control over funds held in trust by its auxiliary organizations. Sufficient control over trust accounts reduces the risk of inappropriate expenditures and misunderstandings about account operations.

AUXILIARY PROGRAMS [29]

Campus policies, procedures, and delegations of authority related to the administration of contracts and grants were not fully documented. Fully developed and communicated written policies and procedures and delegations of authority strengthen internal controls and reduce the risk that misunderstandings will occur.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [31]

ELECTION OF OFFICERS [31]

The California State University, Fresno Foundation (Foundation) did not consistently follow its bylaws regarding the election of officers. Compliance with corporate bylaws reduces the risk of misunderstandings and may reduce legal liability.

PUBLIC MEETINGS [31]

Notices of the Foundation board of directors' and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

BOARD MINUTES [32]

The Foundation board of directors' meeting minutes were not consistently signed and approved by an appropriate official. Maintaining signed board of directors' meeting minutes reduces the risk of misunderstandings and may reduce legal liability.

RESERVES [33]

The Foundation reserve plan for working capital required improvement. Sufficient reserve planning and analysis reduce the auxiliary's risk to fund future needs.

RISK MANAGEMENT [33]

The Foundation did not maintain appropriate crime insurance. Maintaining appropriate insurance coverage reduces the auxiliary's exposure to potential liability.

CASH RECEIPTS AND HANDLING [34]

Certain controls over Foundation cash receipts processing were deficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

INVESTMENTS [35]

Documentation for certain Foundation endowments was inadequate. Maintaining adequate endowment documentation reduces the risk that funds will be handled inappropriately and contrary to the expectations of the campus and the donor.

FEES, REVENUES, AND RECEIVABLES [36]

Travel advances issued by the Foundation were not cleared in a timely manner. Clearing travel advances in a timely manner reduces the risk of a loss or misappropriation of funds.

PURCHASING AND ACCOUNTS PAYABLE [36]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

AUXILIARY PROGRAMS [37]

SUB-RECIPIENT MONITORING [37]

The Foundation had not developed written policies and procedures for sponsored program sub-recipient monitoring. Fully developed and communicated written policies and procedures strengthen internal controls and reduce the risk that misunderstandings will occur.

PROJECT FILES [38]

Maintenance of Foundation contracts and grants project files required improvement. Maintaining documentation to evidence management and monitoring of sponsored programs reduces the risk of penalties and disallowances for non-compliance with contracts and grants terms.

FEDERAL EQUIPMENT [39]

Controls over federal project equipment purchased through the Foundation were inadequate. Adequate controls over project equipment reduce the risk of loss and theft.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

LEGAL AND REGULATORY COMPLIANCE [41]

AUXILIARY AUTHORIZATION [41]

The California State University, Fresno Association, Inc. (Association) operating agreement with the CSU required revision as to functions managed, administered, and operated by the auxiliary organization. Operating with an up-to-date, written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

LEASE AND OPERATING AGREEMENTS [42]

The lease and operating agreement between the campus and the Association did not reflect current requirements and was not executed in a timely manner. Appropriately authorizing and executing lease and operating agreements in a timely manner reduce the risk of misunderstandings regarding the terms of the arrangements.

GROUND LEASE [42]

Consideration exchanged and facilities leased were not sufficiently articulated/described in certain ground lease agreements between the campus and the Association. Fully documenting consideration and facilities leased reduces the risk that a “gift of public funds” claim could be asserted against the campus or its legally separate auxiliary organizations.

PUBLIC MEETINGS [43]

Notices of the Association board of directors’ and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

SALARIES AND BENEFITS [44]

The Association had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions. Fully documenting the comparative analysis of positions reduces the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

SELF-SUFFICIENCY [44]

The Association was not operating on a self-sufficient basis and did not take appropriate measures to ensure that its reserve planning was sufficient to assure fiscal viability. Operating on a self-sufficient basis and maintaining adequate financial and operational controls, including adequate reserves to ensure revenues equal or exceed expenditures, reduce the risk of financial viability/stability of the auxiliary.

EDUCATIONAL SUPPORT [45]

The Association did not properly process stipends paid to Associated Students California State University, Fresno (AS) executive officers. Proper processing of stipends reduces the risk of overpayment of payroll taxes and may reduce legal liability.

PROGRAMS [46]

The Association's accounting for the acceptance and operation of a biomass energy production facility was inappropriate. Performing functions which are within the auxiliary's given authority and exercising sufficient due diligence and sound accounting practice reduce the risk that the auxiliary will enter into transactions inconsistent with the educational mission of the campus and reduce the CSU's exposure to potential liability.

ADMINISTRATIVE SERVICE AGREEMENTS [48]

Administrative service agreements between AS; Fresno State Programs for Children, Inc. (PFC); and The Agricultural Foundation of California State University, Fresno (AG Foundation) were either not executed or could not be located for the period under review. Maintaining written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

SEGREGATION OF DUTIES [49]

The Association did not appropriately segregate certain accounting functions for cash receipts, cash disbursements, investments, and payroll and human resources. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

CASH RECEIPTS AND HANDLING [51]

CASH RECEIPTS [51]

Certain controls over Association cash receipts processing were deficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

TEXTBOOK BUYBACK VOUCHERS [52]

Vouchers used for the Association textbook buyback program were not numbered, watermarked, or otherwise controlled. Adequate controls over the textbook buyback process reduce the risk of loss or misappropriations.

PETTY CASH AND CHANGE FUNDS [53]

Certain controls over Association petty cash and change funds were insufficient. Adequate controls over petty cash and change funds reduce the risk of a loss or misappropriation of funds.

FEES, REVENUES, AND RECEIVABLES [54]

Certain controls over Association accounts receivable were deficient. Sufficient controls over accounts receivable reduce the risk of loss, errors, and irregularities.

PURCHASING AND ACCOUNTS PAYABLE [55]

CHECK PROCESSING [55]

The Association did not adequately secure its rubber signature stamp and blank check stock. Adequate controls over the security and usage of the rubber signature stamp and blank check stock reduce the risk of misappropriation of funds.

SUPPORTING DOCUMENTATION [56]

Certain Association cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

UNCLAIMED MONIES [58]

The Association had not developed policies and procedures to escheat unclaimed monies to the state. Meeting the requirements of unclaimed property law could reduce the auxiliary’s exposure to potential penalties and fines.

PERSONNEL AND PAYROLL [58]

EMPLOYEE SEPARATION [58]

The Association's controls over terminated hourly employees were inadequate. Fully documenting and completing employee clearance forms and removing or inactivating separated employees from the payroll system reduce the risk of loss, errors, and misappropriation.

TRANSFER ACCOUNTABILITY [59]

Transfer accountability of Association payroll checks required improvement. Sufficient controls over payroll checks reduce the risk of errors, irregularities, and misappropriation of funds.

FIXED ASSETS [60]

Certain controls over Association fixed assets were inadequate. Adequate controls over fixed assets reduce the risk that property may be lost or stolen.

INFORMATION TECHNOLOGY [61]

PHYSICAL AND ENVIRONMENTAL CONTROLS [61]

The Association's food services and bookstore computer rooms were not equipped with smoke detection equipment. Adequate physical and environmental safeguards for the computing equipment reduce the probability of a significant adverse event affecting the computing system.

ACCOUNTING SYSTEM ACCESS [61]

The current configuration of the Association's accounting system did not provide for a proper segregation of duties. Restricting access to the accounting system reduces the risk of unauthorized and inappropriate acts.

POINT-OF-SALE SYSTEM ACCESS [62]

Access to the Association's bookstore point-of-sale cash register terminals was not appropriately restricted. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

BOOKSTORE ACCOUNTING SYSTEM ACCESS [63]

Association bookstore accounting system user profiles did not provide for a proper segregation of duties. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE [64]

PUBLIC MEETINGS [64]

Notices of the Ag Foundation board of directors' and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and reduces legal liability.

SALARIES AND BENEFITS [64]

The Ag Foundation had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions. Fully documenting the comparative analysis of positions reduces the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

AGRICULTURAL OPERATIONS [65]

The Ag Foundation was not operating on a self-sufficient basis and did not take appropriate measures to ensure that its reserve planning was sufficient to assure fiscal viability. Operating on a self-sufficient basis and maintaining adequate financial and operational controls, including adequate reserves to ensure revenues equal or exceed expenditures, reduce the risk of financial viability/stability of the auxiliary.

INDEMNITY BONDS [66]

The Ag Foundation could not provide evidence that it had obtained indemnity bonds or similar protection. Maintaining appropriate insurance coverage reduces the auxiliary's exposure to potential liability.

PROGRAMS [67]

Ag Foundation regulatory compliance manuals had not been completed for all enterprise units. Documenting regulatory requirements reduces the risk of non-compliance.

CASH RECEIPTS AND HANDLING [68]

Certain controls over Ag Foundation cash receipts processing were deficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

FEES, REVENUES, AND RECEIVABLES [69]

ACCOUNTS RECEIVABLE [69]

The Ag Foundation did not take appropriate measures to ensure the timely collection of long-outstanding accounts receivable. Sufficient controls over accounts receivable reduce the risk of loss, errors, or irregularities.

UNRELATED BUSINESS INCOME [70]

The Ag Foundation had not accounted for, or tracked, all unrelated business income (UBI). Properly analyzing, documenting, and reporting UBI reduce the auxiliary's exposure to potential penalties and actions by the Internal Revenue Service (IRS).

PURCHASING AND ACCOUNTS PAYABLE [70]

Certain Ag Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

FIXED ASSETS [72]

Controls over Ag Foundation fixed assets were inadequate. Adequate controls over fixed assets reduce the risk that property may be lost or stolen.

INVENTORIES [73]

Certain controls over Ag Foundation inventory were insufficient. Properly accounting for inventory and cost of goods sold reduces the risk of errors, irregularities, and misappropriation of funds.

INFORMATION TECHNOLOGY [74]

The Ag Foundation winery enterprise unit did not exercise appropriate oversight concerning its file level security and the frequency and disposition of file backups. Exercising appropriate oversight over file level security and backups may reduce the risk of data loss and the risk of legal liability.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

LEGAL AND REGULATORY COMPLIANCE [76]

AUXILIARY FUNCTIONS [76]

Certain functions performed by The California State University, Fresno Athletic Corporation (Athletic Corporation) were inconsistent with CSU policy. Performing only authorized functions reduces the risk that the auxiliary will participate in transactions inconsistent with Title 5 and reduces the CSU's exposure to unwarranted liability.

LEASE AND OPERATING AGREEMENTS [76]

Proper written agreements had not been executed between the Athletic Corporation, the CSU, and the campus for the operation of the auxiliary organization. Operating with up-to-date, written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

PUBLIC MEETINGS [78]

Notices of the Athletic Corporation board of directors' and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

MEETING QUORUM [78]

A quorum was not present during four Athletic Corporation board of directors' meetings held during the period extending from June 2000 through June 2001. Compliance with corporate bylaws reduces the risk of misunderstandings and may reduce legal liability.

BUDGET [79]

Written documentation of the campus president's approval of the Athletic Corporation's operating budget for fiscal year 2000-2001 could not be located. Supporting documentation evidencing appropriate approval of auxiliary budgets reduces the risk of misunderstandings over the allocation of funds.

RESERVES [80]

The Athletic Corporation had not established a written surplus funds/reserve policy. Sufficient reserve planning and analysis reduce the auxiliary's risk to fund future needs.

CONFLICT OF INTEREST [81]

The Athletic Corporation had not developed written conflict-of-interest policies and procedures. Maintaining conflict-of-interest policies and procedures reduces liability for acts contrary to the code.

SEGREGATION OF DUTIES [82]

The Athletic Corporation did not appropriately segregate certain accounting functions for accounts receivable, accounts payable, and personnel and payroll. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

CASH RECEIPTS AND HANDLING [83]

CASH RECEIPTS [83]

Certain controls over Athletic Corporation cash receipts processing were deficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

EVENT TICKETS [85]

Controls over the accountability for tickets at the Athletic Corporation were inadequate. Adequate controls over ticket accountability reduce the risk of errors or misappropriation.

TICKET OFFICE SECURITY [87]

Security at the Athletic Corporation ticket office required improvement. Appropriate security reduces the potential for crime and misappropriation of funds.

PETTY CASH AND CHANGE FUNDS [87]

Independent, unannounced counts were not performed at the Athletic Corporation/Bulldog Shop, and sufficient documentation was not available to evidence such counts were conducted at the ticket office. Performing periodic and independent, unannounced counts of change funds reduces the risk that misappropriated funds will not be detected.

INVESTMENTS [88]

The Athletic Corporation’s policies and procedures over the management and administration of investments required improvement. Sufficient investment policies and procedures and appropriate management oversight reduce the risk that investments will be handled inappropriately.

FEES, REVENUES, AND RECEIVABLES [89]

Certain controls over Athletic Corporation accounts receivable were deficient. Sufficient controls over accounts receivable reduce the risk of loss, errors, or irregularities.

PURCHASING AND ACCOUNTS PAYABLE [90]

PROCUREMENT PROCESS [90]

The Athletic Corporation's purchasing policies and procedures were not fully documented. Fully developed and communicated written policies and procedures strengthen internal controls and reduce the risk that misunderstandings will occur.

SUPPORTING DOCUMENTATION [91]

Certain Athletic Corporation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

RAFFLE [94]

The Athletic Corporation was not registered to conduct and/or participate in the operation of a raffle. Appropriately authorized raffles reduce the auxiliary's and campus' exposure to potential liability.

BANK RECONCILIATIONS [94]

Athletic Corporation bank reconciliations were not signed or dated by the preparer, or approved by the reviewer, in a timely manner. In addition, unreconciliable differences were not identified and cleared in a timely manner. Bank reconciliations completed in a timely manner reduce the risk that errors and irregularities will not be detected in a timely manner.

UNCLAIMED MONIES [95]

The Athletic Corporation had not developed policies and procedures to escheat unclaimed monies to the state. Meeting the requirements of unclaimed property law could reduce the auxiliary's exposure to potential penalties and fines.

PERSONNEL AND PAYROLL [96]

TIME REPORTING [96]

Electronic timecard information/payroll reports were not reviewed and/or approved by supervisors at the Athletic Corporation. Adequate controls over payroll processing reduce the risk of a loss or misappropriation of funds.

PAYROLL DATABASE [97]

Controls over the Athletic Corporation payroll database required improvement. Sufficient controls over the payroll database reduce the risk of errors or misappropriation of funds.

FIXED ASSETS [98]

Certain controls over Athletic Corporation fixed assets were inadequate. Adequate controls over fixed assets reduce the risk that property may be lost or stolen.

INVENTORIES [99]

Inventory carried on a consignment basis by the Athletic Corporation/Bulldog Shop was not supported by a written agreement. Maintaining a written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

INFORMATION TECHNOLOGY [99]

USER ACCESS [99]

Athletic Corporation user profiles did not provide for proper segregation of duties. Adequate segregation of duties/functions reduces the risk of errors, irregularities, and misappropriation of funds.

INFORMATION TECHNOLOGY SUPPORT [100]

The Athletic Corporation had not established consistent, ongoing support for data processing operations to ensure efficient and effective use of computer resources. Consistent monitoring and support for information technology operations reduce the risk of unauthorized and inappropriate accounting entries, and adequate planning and protection of computer systems could prevent unexpected disruption in data processing operations.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

LEGAL AND REGULATORY COMPLIANCE [102]

AUXILIARY AUTHORIZATION [102]

The PFC operating agreement with the CSU did not sufficiently address all aspects of PFC operations on the campus, nor was the operating agreement executed in a timely manner. Operating with an up-to-date, written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

LEASING OF FACILITIES [102]

Certain PFC lease and sublease arrangements were not properly supported by written agreements. Maintaining written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

WRITTEN AGREEMENTS [103]

The use of state resources was not sufficiently articulated in written agreements between PFC and the campus. Maintaining a written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

PUBLIC MEETINGS [104]

Notices of PFC board of directors' and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

BOARD MINUTES [104]

PFC board of directors' meeting minutes were not signed and approved by an appropriate official. Maintaining signed board of directors' meeting minutes reduces the risk of misunderstandings and may reduce legal liability.

SALARIES AND BENEFITS [105]

PFC had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions. Fully documenting the comparative analysis of positions reduces the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

BUDGET [105]

PFC did not submit certain annual budgets to the campus president for approval in a timely manner, nor could PFC provide documentation evidencing the president's approval of those budgets. Timely budget submission and supporting documentation evidencing appropriate approval of auxiliary budgets reduce the risk of misunderstandings over the allocation of funds.

RESERVES [106]

PFC had not established a complete, written surplus funds/reserve policy. A complete reserve policy reduces the auxiliary's risk to fund future needs.

RISK MANAGEMENT [107]

Client records were inadequately secured by PFC. Adequate client record security may reduce legal liability.

PROGRAMS [108]

PFC neither developed written policies and procedures regarding the application, review, acceptance, and administration of contracts and grants, nor secured approval from the campus president or his designee for these projects. Proper authorization and administration for contracts and grants reduce the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus and that contracts and grants will be inappropriately managed.

SEGREGATION OF DUTIES [109]

PFC did not appropriately segregate certain accounting functions for cash receipts and accounts receivable. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

CASH RECEIPTS AND HANDLING [110]

Certain controls over PFC cash receipts processing were deficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

FEES, REVENUES, AND RECEIVABLES [111]

ACCOUNTS RECEIVABLE [111]

Certain controls over PFC accounts receivable were inadequate. Sufficient controls over accounts receivable reduce the risk of loss, errors, and irregularities.

UNRELATED BUSINESS INCOME [111]

PFC had not accounted for, or tracked, UBI in a sufficient manner. Properly analyzing, documenting, and reporting UBI reduce the auxiliary's exposure to potential penalties and actions by the IRS.

PURCHASING AND ACCOUNTS PAYABLE [112]

Certain PFC cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

INFORMATION TECHNOLOGY [113]

PFC did not exercise appropriate oversight concerning its file level security and the frequency and disposition of file backups. Exercising appropriate oversight over file level security and backups may reduce the risk of data loss and the risk of legal liability.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE [115]

AUXILIARY AUTHORIZATION [115]

AS had not executed an operating agreement with the CSU. Operating with an up-to-date, written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

DISSOLUTION OF AUXILIARY [115]

The AS Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees. The inclusion of a dissolution clause in accordance with Title 5 reduces the risk of net assets not being properly distributed in the event the corporation is dissolved.

WRITTEN AGREEMENTS [116]

Written agreements had not been established between AS and the campus and other auxiliaries concerning certain activities. Maintaining written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

BOARD MINUTES [117]

AS board of directors' meeting minutes were not signed and approved by an appropriate official. Maintaining signed board of directors' meeting minutes reduces the risk of misunderstandings and may reduce legal liability.

BYLAWS [117]

The AS bylaws required revision and had not been filed with the Office of the Chancellor. Maintaining current bylaws reduces the risk of misunderstandings regarding rights and responsibilities.

SALARIES AND BENEFITS [118]

AS had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions. Fully documenting the comparative analysis of positions reduces the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

RESERVES [119]

The AS reserve policy was inadequate. Sufficient reserve planning and analysis reduce the auxiliary's risk to fund future needs.

EXPENDITURE AUTHORITY [119]

AS did not comply with its bylaws concerning the authority to sign contracts. Compliance with bylaws and proper review and approval of contractual agreements reduce the risk of unnecessary financial loss and unenforceable provisions.

FEES, REVENUES, AND RECEIVABLES [120]

The AS did not obtain and review the student body association fee allocation for accuracy. Obtaining and reviewing the reconciliation of student body association fees reduce the risk of errors, irregularities, and misappropriation of funds.

PURCHASING AND ACCOUNTS PAYABLE [121]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

AUXILIARY PROGRAMS [122]

AS inadequately administered certain grants awarded to students. Ensuring that students are currently admitted to the campus prior to the disbursement of scholarships reduces the risk of non-compliance with state and CSU policy.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

SUPPORT ORGANIZATIONS

The campus had not developed a procedure to identify and a strategy to coordinate and oversee ancillary organizations that operate in support of academic and non-academic programs.

Various non-profit organizations present opportunities and liabilities to the campus and its auxiliary organizations. Opportunities include greater community involvement in the form of financial and non-financial support. Liabilities accrue as a result of actions by the operators of these organizations and, therefore, become the legal responsibility of the campus or its auxiliaries.

Examples of such organizations include the various alumni associations operating on the campus and various athletic booster clubs.

Due to the perceived value to the California State University (CSU) mission, campus and auxiliary personnel have provided services to these unofficially recognized organizations. However, the use of campus and auxiliary time and materials and the actions and activities supervised and performed by these officials expose the CSU to legal and regulatory actions.

Title 5 §42402 and Education Code §89900 indicate that the president of each campus is responsible for the educational effectiveness, academic excellence, and general welfare of the campus over which he presides.

The campus internal auditor indicated that these determinations were made on a case-by-case basis.

A lack of oversight over ancillary organizations operating on the campus in support of academic and non-academic programs exposes the campus and the CSU system to regulatory and legal consequences, thus negatively impacting the educational mission of both.

Recommendation 1

We recommend that the campus develop a procedure to identify and a strategy to coordinate and oversee the various ancillary organizations that operate on the campus in support of academic and non-academic programs.

Campus Response

We concur. The campus will develop a procedure to identify and a strategy to coordinate and oversee the various ancillary organizations operating on campus. This project should be completed by December 2003.

ACCEPTANCE OF FUNDS

Campus auxiliaries had not developed written policies and procedures regarding the acceptance of funds.

Education Code §89903 states that no auxiliary organization shall accept any grant, contract, bequest, trust, or gift, unless it is so conditioned that it may be used only for purposes consistent with policies of the Trustees.

The campus internal auditor indicated that the need for documented policies and procedures at auxiliaries had not been fully addressed.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

Recommendation 2

We recommend that the campus develop written policies and procedures applicable to its auxiliary organizations to ensure that they accept only those funds whose purposes are consistent with CSU policy.

Campus Response

We concur. The campus will develop policies and procedures for auxiliary organization acceptance of funds. These procedures will be implemented by December 31, 2003.

PUBLIC RELATIONS POLICY

The campus had not established a public relations policy applicable to its auxiliary organizations.

Title 5 §42502 requires the campus president to file, with the chancellor, a policy on the accumulation and use of public relations funds for all auxiliary organizations. The statement will include the policy and procedure on solicitation of funds, source of funds, amounts, purpose for which the funds will be used, allowable expenditures, and procedures of control.

The campus internal auditor indicated that the need for a policy may have been overlooked.

Failure to establish a current public relations policy applicable to auxiliary organizations increases the risk that funds will be accumulated and used improperly.

Recommendation 3

We recommend that the campus establish a public relations policy applicable to its auxiliary organizations and maintain this policy on file with the Office of the Chancellor.

Campus Response

We concur. The campus will coordinate with the auxiliary organizations to develop a public relations policy of the campus community. This policy will be implemented by December 2003.

COURSE MATERIALS

The campus had not developed written policies and procedures to address the sale of faculty-developed course materials.

The California State University, Fresno Association, Inc. (Association) bookstore copy center produced and sold instructor course packs on consignment for a price established by the instructor or department. In certain cases, these course packs were sold for a profit which was remitted back to the instructor or department.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates development of a policy addressing faculty-developed course materials.

The Association executive director indicated that she was unaware of any campus policy that addressed consignment sales of faculty-developed course materials.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

Recommendation 4

We recommend that the campus develop written policies and procedures to address the sale of faculty-developed course materials.

Campus Response

We concur. A university policy regarding the sale of faculty-developed course materials will be developed by December 2003.

PERSONNEL AGREEMENTS

Written agreements had not been established between the campus and its auxiliaries for the assignment of state employees.

Various arrangements regarding the rights and responsibilities of a campus employee providing services to auxiliary organizations, including those that act as authorized signers on auxiliary bank accounts, were not formalized.

Section 4.11 of the *CSU Policy Manual for Contracting and Procurement* indicates that contracts should include terms and conditions necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out under the contract.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that arrangements between the campus and auxiliaries be established in writing.

The campus internal auditor indicated that the need to document these agreements was overlooked.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 5

We recommend that the campus establish written agreements which clearly define the terms and conditions for the assignment of state employees by auxiliary organizations.

Campus Response

We concur. Memorandums of Understanding (MOU) will be developed to document the terms and conditions of state employee assignments in the auxiliary organizations. These memorandums will be completed by December 31, 2003.

LAND SALE

Proceeds received from the sale of land were not properly administered and distributed by the campus.

<u>Deposit of Funds</u>

- In February 2000, the campus received $2.16 million from the sale of campus land to the California Department of Transportation to accommodate the construction of a new state highway. The proceeds from the sale were deposited into two campus trust accounts.

- Prior to the sale, the land was used as agricultural land by The Agricultural Foundation of California State University, Fresno (Ag Foundation) and the campus agricultural school. A land use committee composed of campus and Ag Foundation representatives had determined that proceeds from the land sale should benefit the campus agricultural school.

Disbursement Authorization

- In June 2000, the campus disbursed $930,470 from one of the trust accounts to the Ag Foundation, a recognized campus auxiliary organization, without sufficient documentation.

- At the time, the campus trust account was not supported by a trust agreement. To substantiate the release of funds, the Ag Foundation, in coordination with the campus, submitted an invoice and supporting documentation to the campus requesting reimbursement for various expenses (i.e., student payroll and labor contractors) incurred during the period from July 1, 1998, through June 5, 2000. Based on inquiry and analysis, a large portion of the expenditures was never paid by the Ag Foundation. Historically, the campus was the entity that incurred such expenses on behalf of, and was normally partially reimbursed by, the Ag Foundation at fiscal year end.

- The invoice submitted by the Ag Foundation was approved for payment by the campus controller and the agricultural operations director.

Government Code §16301 states that except as otherwise provided by law, all money belonging to the state received from any source whatever by any state agency shall be accounted for to the controller at the close of each month, or more frequently if required by the controller or the Department of Finance, in such form as he prescribes, and on the order of the controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Education Code §89721 and various chancellor's office mandates establish standards for such operations and related funds management.

The university controller indicated his understanding that the reimbursement to the Ag Foundation would be made for valid Ag Foundation expenditures/transactions that could have been charged to the campus agricultural operations activity.

Failure to properly administer and distribute proceeds from the sale of campus land increases the risk that a "gift of public funds" claim could be asserted against the campus or its legally separate auxiliary organizations.

Recommendation 6

We recommend that the campus seek authoritative guidance from the chancellor's office as to its handling and distribution of the proceeds from the sale of state land.

Campus Response

We concur with the recommendation. Our campus will submit, by September 15, 2003, information about how the transaction was internally processed to ensure that the chancellor's office agrees with how we have handled the transaction or seek an agreeable alternative.

TRUSTS AND OTHER LIABILITIES

The campus did not exercise sufficient control over funds held in trust by its auxiliary organizations.

Funds were held in trust by all campus auxiliary organizations for campus programs, certain discretionary funds, contracts and grants, and student clubs and organizations.

We found that:

- The California State University, Fresno Foundation's (Foundation's) accounting for fund-raising proceeds and expenditures was inappropriately treated as agency transactions, and fund-raising revenues were not recognized by the auxiliary or the campus.

- Association trust agreements had not been executed between the Association and account holders.

- Foundation trust agreement documentation did not consistently specify the source of the funds or the disposition of unexpended funds.

- Trust agreements were not maintained to support arrangements wherein The California State University, Fresno Athletic Corporation held funds on behalf of, and provided fiscal services to, various athletic support groups, which in many cases were organized as separate 501(c)3 organizations.

- Funds held in trust by Associated Students California State University, Fresno (AS) on behalf of student club organizations were inappropriately administered. We found that these funds were treated as checking accounts (released upon the signature of the account holder) rather than as trust funds (where AS would be accountable for how the funds were expended).

- The campus collected student body organization fees, held the funds in a trust account, and released the funds to AS upon receipt of an invoice based on projected expenditures for the applicable academic term. AS subsequently invested and disbursed these monies and acted as custodian of the funds rather than the campus chief financial officer as required by the Education Code.

- Trust agreements executed between AS and the student club organizations were inadequate, as they did not address the purpose of the account, source of funds, reporting requirements, time constraints, instructions for closing the account, disposition of unexpended balance, or other restrictions.

- Certain AS trust agreements were incomplete or missing. AS did not verify the validity of the student or advisor signatures on the club application with the student activities office, although students and advisors must sign expenditure requests. We found instances where student clubs had not executed trust agreements with AS.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Education Code §89721 and various chancellor's office mandates establish standards for such operations and related funds management.

Education Code §89036, Public Contract Code §10295, §10430(c), §12100.5, and §12120, and Executive Order (EO) No. 667, *Acquisition of Personal Property and Services*, dated April 1, 1997, state that campus presidents have received delegated authority from the chancellor to purchase, sell, lease, or license personal property in accordance with Trustee policy and law. Responsibility for the preparation of campus internal policies and procedures consistent with the provision of the *CSU Policy Manual for Contracting and Procurement* remains with the campus presidents. Generally, only campus executive management and purchasing are legally able to sign such agreements.

The CSU *Investment Manual for California State University Trust Funds*, AD 97-08, indicates that all CSU trust fund money, pending disbursement for its intended purpose, will be managed in custodial accounts in the name of the CSU system.

Title 5 §42403(a) requires the campus chief fiscal officer to manage and serve as custodian of student body fees.

The campus internal auditor indicated that the manner in which these funds have been administered has been in place for many years.

Insufficient control over trust accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

Recommendation 7

We recommend that the campus increase its oversight of auxiliary management, specifically in the area of funds held in trust accounts.

Campus Response

We concur. The campus will take steps to increase its oversight of auxiliary management, specifically with regards to funds held by the auxiliary organizations in trust. This matter will be addressed by December 2003.

AUXILIARY PROGRAMS

Campus policies, procedures, and delegations of authority related to the administration of contracts and grants were not fully documented.

We found that campus policies and procedures did not sufficiently address:

- Budget preparation.

- Location and maintenance of technical and financial reports.
- Principal investigator disclosure requirements for federal projects (conflict of interest).

In addition, there was no written delegation of authority from the president which allowed the associate vice president of the university grant and research office to execute sponsored program agreements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be fully documented.

EO No. 168, *The California State University and Colleges Auxiliary Organizations – Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, dated January 19, 1973, states that proposals or requests for funding of research or other special educational projects shall not be submitted to sponsoring federal or state agencies, public or private corporations, private foundations, or individuals without prior approval of the president of the campus or his designee.

The campus internal auditor indicated that the campus policy was outdated and that the campus has undertaken a review of contracts and grants to determine best practices.

Failure to develop and communicate written policies and procedures and delegations of authority weakens internal controls and increases the risk that misunderstandings will occur.

Recommendation 8

We recommend that the campus document its delegations of authority for approval of sponsored program agreements and further document its contracts and grants policies and procedures.

Campus Response

We concur. The campus will document its delegations of authority for approval of sponsored program agreements. We will also develop policies and procedures which address the issues of budget preparation, location, and maintenance of technical and financial reports, and conflict-of-interest disclosures for principal investigators. These tasks will be completed by December 31, 2003.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

ELECTION OF OFFICERS

The California State University, Fresno Foundation (Foundation) did not consistently follow its bylaws regarding the election of officers.

We found that the Foundation did not elect a slate of officers, in accordance with its bylaws, during calendar years 1999 and 2000.

Corporations Code §5213(b) requires officers to be chosen by the board.

The Foundation bylaws state that the annual meeting for the election of officers shall be the meeting in the fourth quarter of the calendar year.

The Foundation executive director indicated that officers were elected during the August 1999 and 2000 meetings; however, the election is not reflected in the board meeting minutes.

Non-compliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 9

We recommend that the Foundation take appropriate measures to ensure that all officer positions are filled in accordance with its bylaws and that such is properly reflected in the board minutes.

Campus Response

We concur. Election of officers was subsequently approved at the August 2002 meeting and the recording secretary has noted this requirement and placed it on the standard first-quarter meeting agenda.

PUBLIC MEETINGS

Notices of the Foundation board of directors' and committee meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The Foundation executive director indicated that he was unaware of the need to notify the public about board and subcommittee meetings.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

Recommendation 10

We recommend that the Foundation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Public notices are now posted in the Foundation building and University Student Union in addition to the Foundation's website.

BOARD MINUTES

The Foundation board of directors' meeting minutes were not consistently signed and approved by an appropriate official.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates complete and accurate minutes signed by an appropriate official.

The Foundation executive director indicated that the omission of an appropriate signature was due to a management oversight.

Failure to maintain signed board of directors' meeting minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 11

We recommend that the Foundation take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. Minutes have subsequently been signed and the recording secretary has noted requirements for future archiving.

RESERVES

The Foundation reserve plan for working capital required improvement.

We found that the analysis for working capital reserve included non-liquid assets, and the working capital reserve was not adequately restricted in accounting records.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The director of Foundation financial services indicated that the Foundation relies on its external auditors for the preparation of this analysis.

Insufficient reserve planning and analysis increase the auxiliary’s risk to fund future needs.

Recommendation 12

We recommend that the Foundation take appropriate measures to ensure that its reserve plan for working capital:

a. Excludes non-liquid assets in its analysis.
b. Allows for proper restriction of funds in its accounting records.

Campus Response

We concur. The Foundation will modify its working capital reserve requirement for the June 2003 annual report to include only liquid assets and allow for proper restriction in its accounting records. Additional disclosure information will be added to the annual report.

RISK MANAGEMENT

The Foundation did not maintain appropriate crime insurance.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates maintaining appropriate insurance coverage.

The director of Foundation financial services indicated his belief that the Association’s commercial crime policy covered all auxiliary organizations and their respective employees.

The lack of appropriate insurance coverage increases the auxiliary’s exposure to potential liability.

Recommendation 13

We recommend that the Foundation maintain appropriate crime insurance coverage.

Campus Response

We concur. The Foundation has added appropriate crime insurance coverage for 2003-2004.

CASH RECEIPTS AND HANDLING

Certain controls over Foundation cash receipts processing were deficient.

We noted that:

- Checks received on campus and subsequently deposited at the Foundation were not restrictively endorsed immediately upon receipt.

- Checks received at the Foundation were not individually logged when appropriate.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient internal controls be maintained over cash receipts processing.

The director of Foundation financial services indicated that endorsement stamps for the Foundation are not widely distributed on campus. He further indicated that checks are not individually logged because the cost is greater than the benefit.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 14

We recommend that the Foundation:

a. Ensure that all checks are restrictively endorsed immediately upon receipt.
b. Maintain a log of checks received for each business day as appropriate.

Campus Response

We concur.

a. The Foundation has provided restrictive endorsement stamps to campus departments. The Foundation restrictively endorses all incoming checks at the reception desk upon receipt.

b. The Foundation has modified its cash receipt procedures and now logs checks received daily, as appropriate.

INVESTMENTS

Documentation for certain Foundation endowments was inadequate.

Based on a review of 12 endowment files, we found that:

- Donor documentation was not available for one endowment reviewed.
- Earnings related to one endowment were not disbursed in accordance with agreement provisions.
- One endowment agreement was not signed by the donor.
- Three agreements established for endowed chairs did not sufficiently describe restrictions on the use of funds.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that endowments be supported by appropriate documentation.

The director of Foundation financial services indicated that this was due to oversight.

The lack of adequate endowment documentation increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and the donor.

Recommendation 15

We recommend that the Foundation coordinate with the campus to strengthen policies and procedures to ensure that all endowments are appropriately documented to meet the intent of the donor.

Campus Response

We concur. The Foundation and the development office will develop and implement a plan for donor and gift stewardship by December 15, 2003. Quarterly stewardship reports will be provided to senior management.

FEES, REVENUES, AND RECEIVABLES

Travel advances issued by the Foundation were not cleared in a timely manner.

We noted $78,807 in travel advances outstanding greater than 90 days.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that travel advances be cleared in a timely manner.

The director of Foundation financial services indicated that this was due to oversight.

Failure to clear travel advances in a timely manner increases the risk of loss or misappropriation of funds.

Recommendation 16

We recommend that the Foundation take appropriate measures to ensure the timely clearance of travel advances.

Campus Response

We concur. The Foundation maintains a log of travel advances. Procedures have subsequently been modified. Notices are sent to individuals that do not clear advances on a timely basis. The supervisor reviews the travel advance log monthly for additional follow up as necessary.

PURCHASING AND ACCOUNTS PAYABLE

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 104 cash disbursements disclosed the following:

<u>Process Controls</u>

- Although Foundation purchasing policy requires sole source justification and competitive bidding under certain circumstances, project directors were not required to provide evidence of compliance.
- Facsimile and photocopied invoices, without certification that records were verified to prevent duplicate payment, were processed.

- Travel and expense claims were processed based upon copies of invoices, Internet printouts, or no supporting documentation.

Processing Exceptions

- In 22 instances, invoices and requisitions lacked approval by an authorized individual.

- In 18 instances, reimbursements were approved by peers, subordinates, and, in one instance, a spouse.

- In 27 instances, a signature stamp was utilized to authorize community relations authorization forms.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that cash disbursements be fully supported and properly authorized.

The director of Foundation financial services indicated that policies do not address some of these issues and may need to be updated.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 17

We recommend that the Foundation strengthen policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The Foundation will modify its policies and procedures by November 15, 2003.

AUXILIARY PROGRAMS

SUB-RECIPIENT MONITORING

The Foundation had not developed written policies and procedures for sponsored program sub-recipient monitoring.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that significant processes be supported by current policies and procedures.

The director of Foundation financial services indicated that this was due to oversight.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

Recommendation 18

We recommend that the Foundation develop written policies and procedures for sponsored program sub-recipient monitoring.

Campus Response

We concur. The Foundation has completed a draft policy on sub-recipient monitoring for circulation. The policy will be finalized and implemented by October 15, 2003.

PROJECT FILES

Maintenance of Foundation contracts and grants project files required improvement.

We found that:

- Sponsored program project proposals were not consistently maintained in project files.
- Documentation to evidence that interim status and/or final technical reports were submitted to the sponsors was not consistently contained in a project file.
- Justification for approval of below-cost reimbursements of indirect costs was not consistently maintained in project files.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.51(a), states that recipients are responsible for managing and monitoring each project, program, award, function, or activity supported by the award.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

Education Code §89904 prescribes that an auxiliary use indirect cost reimbursements in accordance with statutory requirements, including applicable Education and Government Code sections.

The director of Foundation financial services indicated that this was due to oversight.

The lack of documentation to evidence management and monitoring of sponsored programs increases the risk of penalties and disallowances for non-compliance with contracts and grants terms.

Recommendation 19

We recommend that the Foundation:

a. Maintain sponsored program proposals in project files.

b. Maintain evidence to document that interim status and/or final technical reports were submitted to the funding agency.

c. Document the justification and approval of below-cost reimbursements on contracts and grants.

Campus Response

We concur.

a. Procedures have been modified. The Foundation requests proposals prior to account set up. If a proposal was not submitted, a memo is placed in the account file.

b. The Foundation will implement policies and procedures to comply with this recommendation by November 15, 2003.

c. The university grants and research office has implemented an Indirect Cost Reduction Approval (ICRA) procedure and form. The ICRA form is attached to the Project Information Form on new proposals.

FEDERAL EQUIPMENT

Controls over federal project equipment purchased through the Foundation were inadequate.

We found that:

- Equipment purchased with federal project funds was not consistently marked with Foundation property tags or otherwise controlled.

- The Foundation was not consistently notified when federal equipment was moved to a new location.

The Foundation Project Director's Handbook states that equipment greater that $500 purchased with federal funds will be marked with a Foundation property tag for control purposes until the equipment is returned to the government or donated to the university. It further states that equipment may not be moved from the original location without prior approval from the Foundation.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong controls over property and equipment.

The director of Foundation financial services indicated that this was due to oversight.

Inadequate controls over project equipment increase the risk of loss and theft.

Recommendation 20

We recommend that the Foundation develop procedures to ensure that:

a. Equipment purchased with federal project funds are appropriately tagged.
b. The Foundation is consistently notified when federal equipment is moved.

Campus Response

We concur.

a. Previously, the principal investigators were required to tag the equipment. The Foundation's procedures have subsequently been modified. Foundation staff now tags all federal equipment.

b. The Foundation has reviewed the list and sent out notices to all principal investigators for updating. The Foundation will also perform a physical inventory for equipment by November 15, 2003.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

The California State University, Fresno Association, Inc. (Association) operating agreement with the CSU required revision as to functions managed, administered, and operated by the auxiliary organization.

The Association operating agreement with the CSU did not sufficiently address all aspects of the Association's operations on the campus. Functions not articulated in the operating agreement included the Association's administration of real estate acquisition and development and fiscal management services provided to other auxiliary organizations.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University and Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The Association executive director indicated that the Association's failure to include the administration of real estate acquisition and development in a formal operating agreement was due to recent involvement in these types of activities. She also indicated that the failure to include fiscal management services in an operating agreement was due to oversight.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 21

We recommend that the CSU and the Association update its operating agreement to specify all functions managed, administered, and operated by the auxiliary.

Campus Response

We concur. A general operating agreement between the Association and the Trustees/university has been submitted to the Office of General Counsel for review. Term will be consistent with outstanding bond issuances.

LEASE AND OPERATING AGREEMENTS

The lease and operating agreement between the campus and the Association did not reflect current requirements and was not executed in a timely manner.

We noted that the lease and operating agreement between the Association and the campus (effective July 1, 2001) for the management and use of the university courtyard and residence dining facility was not executed until ten months after the effective date.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that operating and lease agreements be authorized and executed in a timely manner and that they reflect current insurance provisions.

EO No. 743, *California State University Insurance Requirements*, dated May 5, 2000, specifies the minimum insurance requirements for auxiliary operation agreements.

The Association executive director stated that the failure to execute the agreement in a timely manner was due to oversight. She further stated that the lease and operating agreements did not reflect the proper insurance requirement because the agreements were executed prior to existing requirements. Additionally, she indicated that although the agreements did not reflect required coverage amounts, the Association was insured for the minimum required coverage amounts.

Failure to appropriately authorize and execute lease and operating agreements in a timely manner increases the risk of misunderstandings regarding the terms of the arrangements.

Recommendation 22

We recommend that the Association take appropriate measures to ensure that lease and operating agreements between the campus and the Association reflect current requirements and be executed in a timely manner.

Campus Response

We concur. Procedures have been established to ensure timely execution of lease and operating agreements.

GROUND LEASE

Consideration exchanged and facilities leased were not sufficiently articulated/described in certain ground lease agreements between the campus and the Association.

Certain ground and property lease agreements between the campus and the Association listed only an incidental monetary fee or the general statement "all benefits provided to the California State

University, Fresno by the Lessee" as consideration. Agreements should describe all of the benefits that the campus would receive in return (consideration) for leasing land and facilities to the Association.

Education Code §89046 requires reimbursement to the campus for leased space. Further, the *CSU Policy Manual for Contracting and Procurement* prescribes the components of a facility lease between the Trustees and a support services organization.

The Association executive director indicated that these agreements were formulated from templates located on the CSU website.

Failure to fully document consideration and facilities leased increases the risk that a "gift of public funds" claim could be asserted against the campus or its legally separate auxiliary organizations.

Recommendation 23

We recommend that the campus and the Association establish lease agreements (separate from the operating agreement) that clearly articulate the consideration exchanged and fully describe the facilities leased.

Campus Response

We concur. Future ground leases will incorporate additional language and provisions for consideration.

PUBLIC MEETINGS

Notices of the Association board of directors' and committee meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The Association executive director indicated that the Association had posted meeting dates on the Association's Internet website at the beginning of each school year and believed this to be sufficient.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

Recommendation 24

We recommend that the Association post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Meeting notices and agendas are now being posted in the University Student Union.

SALARIES AND BENEFITS

The Association had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Association interim director of human resources stated that the Association had not been able to complete a comparability analysis. She further stated that the Association was currently in the process of updating employee job descriptions and that, upon completion, an employee comparability analysis would be conducted.

Failure to fully document the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 25

We recommend that the Association perform and document an analysis of all auxiliary and comparable campus salaries, wages, and benefits.

Campus Response

We concur. A comparative analysis will be completed by December 2003.

SELF-SUFFICIENCY

The Association was not operating on a self-sufficient basis and did not take appropriate measures to ensure that its reserve planning was sufficient to assure fiscal viability.

For fiscal year ended June 30, 2002, the Association's unrestricted net assets decreased $705,730 due largely to operating losses related to its investment in a biomass energy production facility. The negative impact of the facility has caused the Association to rely on cash from restricted sources to fund its day-to-day operations. Although the Association's budget for fiscal year 2002-2003 projects revenues will exceed expenditures by $244,000, the effect of the biomass facility on operations was not considered. Based on the facility's performance to date, Association expenditures will likely exceed revenues for fiscal year 2002-2003.

The Association's reserve policy did not clearly establish reserve amounts, and the method used to calculate working capital reserves inappropriately included non-liquid assets and long-term liabilities. Further, we found that reserve balances were clearly less than that required.

EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that the distinguishing characteristic of an auxiliary enterprise is that it is managed on an essentially self-supporting basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary operate on a self-sufficient basis and that controls be in place to ensure revenues exceed or equal expenditures.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The Association executive director indicated that efforts to dispose of the biomass energy production facility have been ongoing.

Failure to operate on a self-sufficient basis and maintain adequate financial and operational controls, including adequate reserves to ensure revenues equal or exceed expenditures, increases the risk of financial viability/stability of the auxiliary.

Recommendation 26

We recommend that the Association develop a formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures, and that appropriate reserves are maintained.

Campus Response

We concur. A written surplus funds/reserve policy will be developed by December 2003.

EDUCATIONAL SUPPORT

The Association did not properly process stipends paid to Associated Students California State University, Fresno (AS) executive officers.

Stipends paid to AS executive officers were processed through payroll as hourly wages, rather than being paid as a reimbursement for personal costs incurred or as scholarships. We noted two instances where the Association returned a timesheet to an executive officer, requiring that the number of hours reported to be reduced, so that the stipend payment would seemingly equate to minimum wage.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary properly process payments.

The Association executive director indicated that the required method for processing stipends is not clearly defined within the California Labor Code.

Failure to properly process stipends may result in overpayment of payroll taxes and may increase legal liability.

Recommendation 27

We recommend that the Association, in conjunction with the AS and the campus, establish an appropriate means of paying stipends to AS officers.

Campus Response

We concur. Appropriate payroll procedures have been implemented.

PROGRAMS

The Association's accounting for the acceptance and operation of a biomass energy production facility was inappropriate.

Acceptance of Production Facility

- The Association's operation of a biomass energy production facility is not listed as an appropriate function of an auxiliary organization under Title 5.
- The Association accepted the gift although it was not licensed through its operating agreement with the CSU and the campus as the auxiliary authorized to accept such gifts.

Due Diligence

- The Association board of directors accepted the gift on December 29, 1999, prior to receiving a written due diligence report prepared by a consultant to evaluate the viability of the biomass operations.
- The Association did not insure its interest in the facility until February 2001.
- An environmental impact study was not performed on the facility until March 2002.
- The facility was being operated under an unwritten management services arrangement with the donor.

- The Association's investment in the facility has reduced available cash flow and has negatively affected its ability to meet short-term obligations.

Accounting

- The donation itself was never recorded as such within the Association's financial statements.

- Expenditures incurred by the Association to bring the facility to operational status have been capitalized as a current receivable, which as of June 30, 2002, totaled $3.7 million.

- The facility was not reflected as a segment of the Association's operations until fiscal year 2001-2002 when operating losses were recorded.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of the California State University and Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary operate within its given authority and exercise sufficient due diligence and sound accounting practice.

EO No. 743, *California State University Insurance Requirements*, dated May 5, 2002, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the California State University, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The Association executive director acknowledged that the power plant was not an authorized function specifically referenced in Title 5; however, the Association was in the process of actively pursuing cost-effective alternatives to address this issue including an effort to sell the facility. The Association's chief financial officer indicated that the Association acted at the advice of its external auditors regarding certain accounting issues.

Performing functions which are not within the auxiliary's given authority and failing to exercise sufficient due diligence and sound accounting practice increase the risk that the auxiliary will enter into transactions inconsistent with the educational mission of the campus and subjects the CSU to potential liability.

Recommendation 28

We recommend that the Association:

a. Continue evaluating its plan to dispose of the biomass energy production facility.

b. In the future, engage only in those activities specifically identified in its operating agreement with the campus and the CSU.

c. Establish procedures which ensure that proper and timely due diligence (i.e., appraisal reports, environmental impact studies, board analysis, etc.) are performed.

d. Take appropriate measures to ensure that proper insurance coverage is obtained in a timely manner.

e. Establish a cash management process which includes appropriate consideration for facility costs and is properly reviewed by management.

f. Seek additional authoritative guidance with respect to the accounting treatment for the acquisition of, and investment in, the biomass energy production facility and amend records and financial reports accordingly.

Campus Response

We concur. The Association has divested itself of all interests in the biomass energy production facility, and the sale was completed in June 2003. The gift acceptance policy will be modified by December 2003 to ensure the Association does not accept gifts that are not in keeping with those authorized auxiliary functions enumerated in the California Code of Regulations Section 42500.

ADMINISTRATIVE SERVICE AGREEMENTS

Administrative service agreements between AS; Fresno State Programs for Children, Inc. (PFC); and The Agricultural Foundation of California State University, Fresno (Ag Foundation) were either not executed or could not be located for the period under review.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that written agreements be executed which fully define the expectations, rights, and responsibilities of the parties involved.

The Association executive director stated that the failure to execute certain written agreements for some fiscal years with other auxiliary entities was due to oversight. She further stated that the Association had since implemented procedures to track all contracts and written agreements in order to ensure that they are renewed and executed in a timely manner.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 29

We recommend that the Association take appropriate measures to ensure that administrative service agreements are appropriately executed and retained.

Campus Response

We concur. For fiscal years 2002-2003 and 2003-2004, all management services agreements were executed in a timely manner.

SEGREGATION OF DUTIES

The Association did not appropriately segregate certain accounting functions for cash receipts, cash disbursements, investments, and payroll and human resources.

Cash Receipts

We found that:

- The Association accountant collected and posted cash receipts, prepared invoices, processed accounts receivable write-offs, and reconciled the Association and Ag Foundation bank accounts.

- The accountant responsible for AS funds collected cash receipts, posted cash receipts, and reconciled the AS bank account.

- The accountant and office manager responsible for the university courtyard student housing project processed invoices, collected cash receipts, matched receipts against open receivables, and performed account write-downs.

- The bookstore administrative assistant processed invoices, collected cash receipts, matched receipts against open receivables, and performed account write-downs.

The Association executive director indicated that due to resource constraints and decentralized accounting, it was difficult to fully segregate all accounting functions.

Cash Disbursements

We noted that:

- An accounts payable staff member responsible for the Association and all Association-managed entities was responsible for maintaining vendor record files in the automated system, inputting disbursement information, controlling blank check stock, and operating a check-signing machine.

- The food service division accounting supervisor and business manager have the ability to create and perform maintenance to vendor master files, system receive food service invoices, approve and vouch accounts payable, and batch process accounts payable.

The Association executive director indicated that due to space concerns and limited resources, there is not enough office staff to completely segregate all duties associated with accounts payable and purchasing duties.

<u>Investments</u>

We noted that Association investments and those managed by the Association were controlled and administered by only one person. This person:

- Transferred and approved the transfer of investment funds.
- Posted investment transactions to the general ledger.
- Reconciled general ledger investment accounts to investment statements.

The Association executive director stated that investment duties were not properly segregated due to the fact that these duties were being performed directly by the chief financial officer.

<u>Payroll and Human Resources</u>

We found that one human resource employee:

- Performed all human resource-related functions.
- Entered employee salaries and time into the payroll system.
- Distributed payroll checks, via mail or pickup, to Association employees.

The Association interim director of human resources indicated that resource constraints did not allow for an appropriate segregation of duties between the human resource and payroll functions.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 30

We recommend that the Association properly segregate certain accounting functions for cash receipts, cash disbursements, investments, and payroll and human resources or institute mitigating procedures approved by the campus.

Campus Response

We concur. The Association will continue to strive for proper segregation of accounting functions, both centrally and within each operating unit. The Association will diagram and review accounting functions with the university's chief financial officer by December 2003 to ensure proper segregation of duties.

CASH RECEIPTS AND HANDLING

CASH RECEIPTS

Certain controls over Association cash receipts processing were deficient.

We noted that:

- The person(s) opening mail for the Association and Association-managed entities did not prepare prelistings for cash or negotiable instruments when appropriate (e.g., checks written to other entities, money orders, etc.).
- Accountability for collections was not established at the earliest possible time, as controlled pre-numbered receipts were not used to document the receipt of cash for certain Association and Association-managed entities.
- Transfer accountability was not established upon pickup of cashier funds at the bookstore. Cashiers and supervisors did not count and document the contents of cash register drawers upon the conclusion of their shifts.
- The Association did not appropriately secure AS cash receipts prior to deposit. Cash receipts that were not forwarded to the cashier's office on the day of receipt were placed unsecured on the top of the Association office safe until the following day's pickup.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient internal controls be maintained over cash receipts processing.

The Association executive director indicated that the processing of cash receipts occurs in many locations due to decentralization of some accounting functions.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 31

We recommend that the Association:

a. Take appropriate measures to establish proper accountability over cash receipts and ensure transfer accountability is established by preparing prelistings for cash and negotiable instruments when appropriate.

b. Establish accountability for collections through the use of controlled, prenumbered receipts.

c. Implement cash countdown procedures at the bookstore.

d. Appropriately safeguard cash receipts prior to deposit.

Campus Response

We concur. Procedures have been implemented to ensure transfer accountability. Also, the Association is utilizing prenumbered receipts in all locations, and all cash receipts are stored in the vault prior to deposit.

TEXTBOOK BUYBACK VOUCHERS

Vouchers used for the Association textbook buyback program were not numbered, watermarked, or otherwise controlled.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that textbook buyback vouchers be adequately controlled.

The Association executive director indicated that the voucher stock being used was recommended by the software vendor.

Inadequate controls over the textbook buyback process could increase the risk of loss or misappropriations.

Recommendation 32

We recommend that the Association take appropriate measures to properly control vouchers issued for the textbook buyback program.

Campus Response

We concur. As of December 2002, the Bookstore now utilizes vouchers that are impressed with a seal at the time of issuance in order to validate them for redemption.

PETTY CASH AND CHANGE FUNDS

Certain controls over Association petty cash and change funds were insufficient.

We found that:

- Security controls were not commensurate with the amount of cash maintained in the bookstore's cash office. The office was not equipped with an appropriate security system (e.g., the office was not equipped with a camera system, nor were there panic buttons available in case of an emergency).

- Non-cashiering personnel were permitted access to the Association cashier's office.

- The Association did not perform timely and independent counts of all change funds on an unannounced basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates change funds be sufficiently safeguarded through, among other things, periodic and independent, unannounced counts, restricted personnel access to funds, and appropriate security controls.

The Association executive director stated that inconsistent audits of petty cash and change funds were due to the lack of oversight.

Inadequate controls over petty cash and change funds increase the risk of loss or misappropriation of funds.

Recommendation 33

We recommend that the Association:

a. In coordination with the campus, evaluate its current bookstore cash office security controls.

b. Restrict access to the Association cashier's office to only those persons performing the cashiering function.

c. Establish and implement procedures requiring the performance and documentation of timely independent cash counts of all Association petty cash and change funds.

Campus Response

We concur. The bookstore will continue to evaluate cash office security controls. Access to the Association's cashier's office has been restricted. Petty cash and change fund procedures will be developed by December 2003. Audits of all petty cash and change funds will be conducted and documented on a quarterly basis.

FEES, REVENUES, AND RECEIVABLES

Certain controls over Association accounts receivable were deficient.

We found that:

- Written policies and procedures had not been developed for the handling of write-offs, uncollectible accounts receivable, or assessing an allowance for doubtful accounts.

- Delinquent accounts receivable, dating back five to ten years and totaling approximately $120,000, were maintained as a lump sum in a current receivable account. This amount was initially $240,000, but the Association has been writing off incremental amounts on a yearly basis.

- A current aging of housing receivables (excluding the amount detailed above) showed that $241,000 (61% of total receivables) had been outstanding greater than 90 days. Approximately, $128,000 dates back to 1999.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates policies and procedures over, and management oversight of, accounts receivable.

The Association executive director indicated that management of receivables was complicated by the fact that most Association business units and managed entities are responsible for managing their own receivables. She also acknowledged that organizational policies and procedures had not been developed for the handling of write-offs and uncollectible accounts receivable, or assessing an allowance for doubtful accounts.

Insufficient controls over accounts receivable increase the risk of loss, errors, and irregularities.

Recommendation 34

We recommend that the Association:

a. Document policies and procedures for the handling of write-offs, uncollectible accounts receivable, and assessing allowance for doubtful accounts.

b. Take appropriate measures to ensure that delinquent accounts receivable are accounted for in accordance with Generally Accepted Accounting Principles (GAAP).

c. Take appropriate measures to improve university courtyard accounts receivable collection efforts.

Campus Response

We concur. The Association has implemented an approved, written accounts receivable collection policy. An allowance for bad debt was established for housing and food services in June 2001.

PURCHASING AND ACCOUNTS PAYABLE

CHECK PROCESSING

The Association did not adequately secure its rubber signature stamp and blank check stock.

We found that a rubber signature stamp, which could be used to sign checks, was maintained in an unlocked drawer in an unsecured area. Blank check stock was maintained in an unlocked closet, which was accessible to all Association office staff.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate controls over the security and usage of rubber signature stamps and blank check stock.

The Association executive director indicated that the items were unsecured due to management oversight.

Inadequate controls over the security and usage of the rubber signature stamp and blank check stock increase the risk of misappropriation of funds.

Recommendation 35

We recommend that the Association establish alternative procedures to using a rubber signature stamp and restrict access to blank check stock to only appropriate personnel.

Campus Response

We concur. The Association has discontinued use of the chief financial officer's signature stamp, and check stock has been secured for access by appropriate personnel only.

SUPPORTING DOCUMENTATION

Certain Association cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 102 cash disbursements disclosed the following:

Process Controls

- Facsimile and photocopied invoices, without sufficient documentation to clearly demonstrate such were sent by the vendor for billing purposes, were processed.
- Documentation of business purpose was not required on purchase orders or requisitions.
- Dual signatures were not required on check payments over a predetermined limit.
- Requestors were not required to sign and date purchase orders and/or requisitions.
- Approving officials were not required to sign and date purchase orders and/or requisitions.
- Accounts payable personnel did not verify that the approving official was authorized by account instructions.
- Written policies and procedures that prohibited an official from authorizing his or her own purchase or payment (i.e., one-up authorization) had not been developed.

Processing Exceptions

- In two instances, documentation to support expenditure was not on file.
- In seven instances, a facsimile invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- In five instances, a photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- In five instances, receipts were not compiled to support credit card payments.
- In five instances, the expenditure did not have an invoice or receipt on file
- In one instance, the receipts for a personal reimbursement were not on file.

- In two instances, a contract supporting a payment was unsigned.
- In one instance, a refund was not supported with an agreement describing an advance deposit.
- In 21 instances, the purpose of the expenditure was not stated.
- In 20 instances, the expenditure for a hospitality event did not provide the names of participating individuals.
- In one instance, the payment support did not provide evidence of approval.
- In four instances, the approving official authorized their own reimbursement or payment for personal expenses.
- In one instance, a subordinate approved the reimbursement.
- In eight instances, the authorization form included a signature stamp from the chief financial officer or accounting manager.
- Signature specimens were not consistently maintained.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and properly authorized.

The Association executive director indicated that it is Association policy to disburse cash only if supported by appropriate documentation and that every attempt is made to follow stated policies and procedures.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 36

We recommend that the Association develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The Association has implemented a process that includes additional review of all cash disbursements received from the operating units prior to processing.

UNCLAIMED MONIES

The Association had not developed policies and procedures to escheat unclaimed monies to the state.

Unclaimed checks were not reported as escheat property, but were instead reversed and transferred back to the appropriate cash accounts.

Code of Civil Procedures, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The Association executive director indicated that the failure to escheat unclaimed monies was an oversight.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 37

We recommend that the Association, in conjunction with the campus, develop operating procedures that implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

We concur. The Association will develop and implement policies and procedures by December 2003.

PERSONNEL AND PAYROLL

EMPLOYEE SEPARATION

The Association's controls over terminated hourly employees were inadequate.

We noted several employees were coded as active employees, but were no longer employed with the Association or Association-managed entities.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that adequate employee separation procedures be maintained.

The Association interim director of human resources indicated that employee separation procedures do exist. However, due to the decentralized organizational structure of the Association and

Association-managed entities, it is difficult to ensure that all separated employees are removed from the payroll system in a timely manner.

Failure to document and complete employee clearance forms and remove or inactivate separated employees from the payroll system increases the risk of loss, errors, and misappropriation.

Recommendation 38

We recommend that the Association strengthen procedures to ensure that clearance forms are documented and completed for all separating employees and that separated employees are removed from the payroll system, or marked as inactive, on a timely basis.

Campus Response

We concur. Procedures have been implemented to remove all inactive employees and to ensure timely notification from the operating units of any employee separation.

TRANSFER ACCOUNTABILITY

Transfer accountability of Association payroll checks required improvement.

We found that the Association did not require employees or designated employee representatives to sign a payroll register or control log to acknowledge receipt of payroll checks.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate controls over the distribution of payroll checks.

The Association interim director of human resources stated that employees were previously required to acknowledge receipt of their payroll checks. However, for some reason, the practice had been discontinued after conversion to the accounting system.

Insufficient controls over payroll checks increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 39

We recommend that the Association take appropriate measures to establish proper transfer accountability over payroll checks.

Campus Response

We concur. A procedure has been implemented to ensure proper transfer accountability of payroll checks.

FIXED ASSETS

Certain controls over Association fixed assets were inadequate.

We noted that:

- Policies and procedures addressing fixed asset management did not exist for both Association and non-Association assets.

- Fixed assets were not formally tracked, as tagging of fixed assets was not required.

- Complete physical inventories of fixed assets did not occur.

- Supporting documentation with appropriate approval was not required to evidence the disposal of assets.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong controls over fixed assets.

The Association chief financial officer indicated that the actual tagging of fixed assets was due to the large number of fixed assets either owned by the Association or by one of the other auxiliary corporations. Additionally, he further indicated that annually, a listing of fixed assets is forwarded to each operating unit for confirmation and validation of the actual physical inventory.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

Recommendation 40

We recommend that the Association:

a. Develop written policies and procedures over fixed asset management.

b. Tag or otherwise control fixed assets.

c. Conduct physical inventories of fixed assets.

d. Require appropriate documentation to support fixed asset additions and deletions of inventory, off-site use of equipment, and property sales and dispositions.

Campus Response

We concur. The Association will develop written policies and procedures for management of fixed assets by December 2003.

INFORMATION TECHNOLOGY

PHYSICAL AND ENVIRONMENTAL CONTROLS

The Association's food services and bookstore computer rooms were not equipped with smoke detection equipment.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates proper physical and environmental controls for computer rooms.

The Association director of management information systems (MIS) attributed the lack of smoke detection equipment in the bookstore and food service office to oversight.

Inadequate physical and environmental safeguards for the computing equipment increase the probability of a significant adverse event affecting the computing system.

Recommendation 41

We recommend that the Association evaluate appropriate physical and environmental controls to safeguard equipment and reduce the risk of fire or other environmental hazards.

Campus Response

We concur. The Association will perform an evaluation by December 2003.

ACCOUNTING SYSTEM ACCESS

The current configuration of the Association's accounting system did not provide for a proper segregation of duties.

- The system's main menu allowed users the ability to perform virtually all accounting functions.

- Other menus allowed users the ability to perform incompatible functions.

- Several system users possessed the menu travel option which allowed for the ability to travel between menus by typing the name of any system menu.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Association director of MIS indicated that the initial system design did not provide for an adequate segregation of duties. She further indicated that they had previously identified this issue and were working with Association management to resolve the issue.

Unrestricted access to the accounting system increases the risk of unauthorized and inappropriate acts.

Recommendation 42

We recommend that the Association properly segregate accounting system duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. The Association will determine necessary modifications to the accounting system general ledger access and procedures in order to properly segregate accounting duties. The Association will obtain an estimated cost and timeframe for implementation of modifications by December 2003.

POINT-OF-SALE SYSTEM ACCESS

Access to the Association's bookstore point-of-sale cash register terminals was not appropriately restricted.

We found that access to cash register terminals was based upon the number of the cash bag issued to each cashier. The user identification and the password for each cashier were the same as the cash bag number. As a result, anyone with knowledge of the cash bag numbers could access any cash register terminal.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Association Kennel Bookstore director stated that he was unaware that each user did not have an individual user ID assigned to them.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 43

We recommend that the Association issue each point-of-sale user a unique user ID that can only be used with a user-defined confidential password.

Campus Response

We concur. The bookstore's point-of-sale system has been modified in order to assign a unique password to each cashier/user.

BOOKSTORE ACCOUNTING SYSTEM ACCESS

Association bookstore accounting system user profiles did not provide for a proper segregation of duties.

We found that the bookstore director and other members of management had user profiles that allowed access to most modules in the bookstore accounting system. These profiles included access to accounts receivable, accounts payable, receiving, vendor information, and purchasing.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Association Kennel Bookstore director indicated that a detailed review of access profiles had never been conducted.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 44

We recommend that the Association review its current user profiles for the bookstore accounting system to ensure that user access levels are appropriate.

Campus Response

We concur. User profiles have been modified to ensure access levels are appropriate.

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE

PUBLIC MEETINGS

Notices of the Ag Foundation board of directors' and committee meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The Ag Foundation executive director indicated that the failure to post notices had been the result of a management oversight.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and increases legal liability.

Recommendation 45

We recommend that the Ag Foundation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Meeting notices and agendas are now being posted in the University Student Union.

SALARIES AND BENEFITS

The Ag Foundation had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The campus agricultural operations director indicated that any Ag Foundation employees are compensated at rates comparable to similar commercial operations.

Failure to fully document the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 46

We recommend that the Ag Foundation perform and document an analysis of all auxiliary and related campus salaries, wages, and benefits.

Campus Response

We concur. The Association's human resources department will complete an analysis by December 2003.

AGRICULTURAL OPERATIONS

The Ag Foundation was not operating on a self-sufficient basis and did not take appropriate measures to ensure that its reserve planning was sufficient to assure fiscal viability.

The campus provides various in-kind support to the Ag Foundation which is partially reimbursed to the campus and as documented in accordance with EO No. 753. Such items include:

- Faculty enterprise managers working for the Ag Foundation but paid by the campus under faculty release time.
- Use of campus facilities and acreage.
- Services provided by student and technician employees hired by the campus.
- Use of campus/School of Agriculture equipment.
- Operating costs paid for by the campus on behalf of the Ag Foundation, including utilities, indirect costs, and repairs and maintenance.

In addition, it was noted that amounts owed to the campus for various services were accumulated in an Ag Foundation accounts payable account; however, no corresponding receivable was recorded by the campus. Each fiscal year end, the campus agricultural operations director would determine how much of the accounts payable balance would be repaid to the campus and how much would be forgiven. The forgiven balance was reclassified by the Ag Foundation to a fictitious agency account, which, as of May 31, 2002, had a balance of $350,000. In some cases, the agency account was used to offset expenditures which were neither capitalized nor recorded as expenses.

Finally, the Ag Foundation did not have cash sufficient to meet both current liabilities and established reserve requirements.

EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that the distinguishing characteristic of an auxiliary enterprise is that it is managed on essentially a self-supporting basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary operate on a self-sufficient basis and that controls be in place to ensure revenues exceed or equal expenditures.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The campus agricultural operations director indicated that the campus and the Ag Foundation have had a long-standing relationship that predates the establishment of the CSU system. He further indicated that the mission of the Ag Foundation is to support the instructional needs of the College of Agricultural Sciences and Technology. Additionally, he indicated that the Ag Foundation is a unique auxiliary organization given its operating structure and mission, which is to provide students with hands-on experience.

Failure to operate on a self-sufficient basis and maintain adequate financial and operational controls, including adequate reserves to ensure revenues equal or exceed expenditures, increases the risk of financial viability/stability of the auxiliary.

Recommendation 47

We recommend that the Ag Foundation develop a strategy for implementation of a self-sufficiency plan that demonstrates the financial/operational differences between educational and commercial operations.

Campus Response

We concur. As a means that demonstrates self-sufficiency, the Ag Foundation will work with the university's chief financial officer to develop a plan that demonstrates significant in-kind support to the university's academic programs. The plan will be developed by December 2003.

INDEMNITY BONDS

The Ag Foundation could not provide evidence that it had obtained indemnity bonds or similar protection.

Title 5 §42403(d) states that indemnity bonds (or similar protection) shall be obtained by an auxiliary organization for officers and employees handling funds of the auxiliary organization.

The Association chief financial officer indicated that coverage was in place for Association employees who handle Ag Foundation assets.

The lack of appropriate insurance coverage increases the auxiliary's exposure to potential liability.

Recommendation 48

We recommend that the Ag Foundation provide evidence of indemnity bonds or similar protection.

Campus Response

We concur. Crime coverage for Ag Foundation employees is in place for 2003-2004.

PROGRAMS

Ag Foundation regulatory compliance manuals had not been completed for all enterprise units.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that regulatory compliance programs be documented.

The campus agricultural operations director indicated that he was unaware of the areas requiring regulatory compliance that are above and beyond what is currently being done to ensure compliance with state and federal agencies who certify commercial operations.

Failure to document regulatory requirements increases the risk of non-compliance.

Recommendation 49

We recommend that the Ag Foundation document compliance requirements within written manuals for all enterprise units.

Campus Response

We concur. The Ag Foundation will submit documented compliance information by December 2003.

CASH RECEIPTS AND HANDLING

Certain controls over Ag Foundation cash receipts processing were deficient.

Our review of cash-handling procedures at three enterprise units disclosed the following:

- Undeposited cash receipts were not adequately safeguarded at the farm market. For example, cash that could not be stored in the floor safe was instead stored overnight in an unlocked desk drawer.
- Accountability was not localized at the farm market when two or more persons had access to the same cash drawer.
- Cash closeout reports prepared by the farm market were not signed by both the preparer and the observer.
- Operating cash at the farm market was commingled with petty cash and cash from the sale of gift certificates. Due to the lack of documentation, neither petty cash nor gift certificate funds could be reconciled.
- Operating cash at the floral unit and meat lab was not properly accounted for, as differences noted between the allocated and actual cash balances could not be identified or explained.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that cash be adequately safeguarded.

The campus agricultural operations director indicated that it was the responsibility of each unit enterprise manager to ensure appropriate cash-handling procedures. Additionally, it was his understanding that current procedures were sufficient to ensure compliance.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 50

We recommend that the Ag Foundation:

a. Develop written cash-handling policies and procedures.

b. Ensure that undeposited cash receipts are adequately safeguarded.

c. Ensure that accountability is localized whenever two or more persons have access to the same cash drawer.

d. Require cash closeout reports be signed by both the preparer and the observer.

e. Ensure that cash used for operations, petty cash, and gift certificates are separately identified and accounted for.

f. Ensure that operating cash is reconciled on a regular basis with differences properly identified and accounted for.

Campus Response

We concur. Written cash-handling policies and procedures will be developed and implemented for the Ag Foundation by December 2003.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

The Ag Foundation did not take appropriate measures to ensure the timely collection of long-outstanding accounts receivable.

As of May 31, 2002, items totaling greater than $27,000, representing 10 percent of the accounts receivable balance, were past due for more than 90 days. Three enterprise units had amounts due to them dating back to 2001. In addition, the bad check receivable account, currently under collection by a third party, included 15 checks dating back to 2001.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that accounts receivable be properly managed.

The campus agricultural operations director stated that this was due to lack of oversight by unit enterprise managers.

Insufficient controls over accounts receivable increase the risk of loss, errors, or irregularities.

Recommendation 51

We recommend that the Ag Foundation take appropriate measures to ensure the timely collection of long-outstanding accounts receivable.

Campus Response

We concur. Procedures have been implemented to ensure timely collection of outstanding accounts receivable.

UNRELATED BUSINESS INCOME

The Ag Foundation had not accounted for, or tracked, all unrelated business income (UBI).

We found that certain units that generated sales revenue off-campus were not included in the Ag Foundation's UBI analysis. In addition, UBI revenues generated by the floral unit were not regularly tracked or verifiable.

Internal Revenue Code (IRC) §512 through §514 defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise of its tax-exempt purpose. UBI in excess of $1,000 needs to be reported to the Internal Revenue Service (IRS) whether or not a tax liability is incurred. In addition, its tax-exempt status could be at risk if too large a portion of its revenue is derived from UBI.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that potential liabilities be properly evaluated.

The Association chief financial officer indicated that the Ag Foundation relied on their external auditors for their UBI analysis.

Failure to properly analyze, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

Recommendation 52

We recommend that the Ag Foundation analyze its operations for UBI and appropriately account for and track it.

Campus Response

We concur. The Ag Foundation will conduct an analysis of its operations for UBI exposure, and will appropriately account for and track UBI.

PURCHASING AND ACCOUNTS PAYABLE

Certain Ag Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 60 cash disbursements disclosed the following exceptions:

Process Controls

- Purchasing policies and procedures had not been developed. Such policies and procedures should address the vendor selection process, responsibilities for verifying contract provisions, the process for receiving purchased items, and prohibited purchases/purchasing practices.

- Bids, quotes, or sole source justifications were not obtained to support purchases.

- Purchase order forms were not used to execute purchases. Check requests were routinely submitted with invoices attached, after goods were received or services provided.

Process Exceptions

- In 29 instances, proof of delivery documentation, such as signed shipping receipts or supervisor sign-off of services received, was not submitted.

- In 23 instances, original invoices or receipts were not submitted or supporting documentation was not filed with the disbursement request.

- In four instances, the applicability of the expenditure to the enterprise unit was not clear or explained in the check request.

- In four instances, invoices were not submitted on a timely basis.

- In one instance, an expenditure was not authorized.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and authorized.

The campus agricultural operations director indicated his belief that the unit enterprise managers and technicians were careful buyers with adequate awareness of competitive market pricing. He further indicated that typically at least two quotes for major purchases are obtained.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 53

We recommend that the Ag Foundation:

a. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.

b. Develop and implement written purchasing policies and procedures.

c. Develop a formal verification process for expenditures not supported by original documentation.

Campus Response

We concur. The Ag Foundation will develop and implement written policies and procedures by December 2003.

FIXED ASSETS

Controls over Ag Foundation fixed assets were inadequate.

Based on our review of 38 items tested at 9 of 22 enterprise units, we noted the following:

<u>Process Controls</u>

- Policies and procedures had not been developed for the management and administration of fixed assets. Such policies and procedures should address:

    - Accountability and responsibility for equipment.
    - Control over additions and deletions of inventory.
    - Procedures for tagging equipment, including sensitive assets.
    - Inventory requirements; off-site use of equipment.
    - Property sales and dispositions.

- Fixed assets were not tagged or consistently and clearly identified (i.e., split cost between units, location, etc.) in the fixed asset subledger.

<u>Processing Exceptions</u>

- One item had been sold and the proceeds were deposited by a separate research entity instead of the Ag Foundation.

- Three fixed assets could not be located.

- Five fixed assets were not properly recorded to the general ledger. For example, two donated items were not recorded and the cost of a bottling unit was understated by the portion of its value representing the manufacturer's donation (about $50,000). In addition, one item purchased with agency funds was not recorded at historical cost, and one item was omitted from the fixed assets listing altogether.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that fixed assets be properly accounted for.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Association chief financial officer indicated that this was due to management oversight.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

Recommendation 54

We recommend that the Ag Foundation:

a. Develop and implement policies and procedures for the management and administration of fixed assets.

b. Ensure that all fixed assets are tagged and properly and clearly identified in the fixed asset subsidiary records.

c. Ensure that proceeds from the sale of fixed assets are deposited to the proper entity.

d. Ensure that all fixed assets are properly valued and recorded to the general ledger.

Campus Response

We concur. The Ag Foundation will develop written policies and procedures for management of fixed assets by December 2003.

INVENTORIES

Certain controls over Ag Foundation inventory were insufficient.

We found that:

- Policies and procedures had not been developed for the management and administration of inventory.

- Monthly farm market inventory counts were not sufficiently and independently verified by someone other than the person conducting the count.

- The farm market inventory was not appropriately recorded as an asset until used. Instead, all costs had been booked to cost of goods sold.

- Complete inventories were only conducted on an annual basis. Therefore, monthly and quarterly financial reports did not reflect the effects of rising and falling inventory levels.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that inventory policies and procedures properly safeguard assets and accurately measure cost of goods sold.

The Association chief financial officer indicated that he was aware of the issues, but had not yet determined the course of corrective action on all conditions.

Failure to properly account for inventory and cost of goods sold increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 55

We recommend that the Ag Foundation:

a. Develop and implement policies and procedures for the management and administration of inventory.

b. Ensure sufficient and independent verification of inventory counts performed at the farm market.

c. Ensure that unsold inventory is properly accounted for.

d. Perform a complete inventory on a regular and periodic basis during the year.

Campus Response

We concur. The Ag Foundation will develop written policies and procedures for management and administration of inventory by December 2003.

INFORMATION TECHNOLOGY

The Ag Foundation winery enterprise unit did not exercise appropriate oversight concerning its file level security and the frequency and disposition of file backups.

The winery was unaware if file level security had been provided over its data, which resides on a campus-supported server, or what procedures existed concerning file backups.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that adequate oversight be maintained over file security and backups.

The AG Foundation winery technician indicated management had believed that campus procedures were sufficient.

Failure to exercise appropriate oversight over file level security and backups may increase the risk of data loss and the risk of legal liability.

Recommendation 56

We recommend that the Ag Foundation winery enterprise unit exercise appropriate oversight over its file level security and the frequency and disposition of file backups.

Campus Response

We concur. The winery enterprise manager will work with the campus information technology department to develop written procedures for file security and backup by December 2003.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY FUNCTIONS

Certain functions performed by The California State University, Fresno Athletic Corporation (Athletic Corporation) were inconsistent with CSU policy.

We found that the Athletic Corporation held funds on behalf of, and provided fiscal services for, various athletic booster clubs, many of which were separate 501(c)3 organizations that acted in support of the campus athletic department.

Title 5 §42500(a) indicates various functions that may be performed by an auxiliary organization. Title 5 §42500(e) indicates that an auxiliary organization shall not engage in a function not listed in subdivision (a) of this section unless an appropriate amendment is made to subdivision (a) by the Board of Trustees, adding said function to the list of approved functions of auxiliary organizations, or unless such function is essential to satisfy the corporation laws of the State of California.

The assistant accounting manager for athletics indicated that the corporation had not considered the provision of these services to be a separate activity.

Performing unauthorized functions increases the risk that the auxiliary will participate in transactions inconsistent with Title 5 and subjects the CSU to unwarranted liability.

Recommendation 57

We recommend that the Athletic Corporation perform only those functions listed in Title 5 or seek approval for variances from the Office of the Chancellor.

Campus Response

We concur. We will seek approval for a variance from the chancellor's office by October 15, 2003.

LEASE AND OPERATING AGREEMENTS

Proper written agreements had not been executed between the Athletic Corporation, the CSU, and the campus for the operation of the auxiliary organization.

We found that:

- The current operating agreement between the Athletic Corporation and the CSU for the period from July 1, 2001, to June 30, 2006, had not been executed. In addition, the corresponding athletics facilities master lease agreement between the Athletic Corporation and the campus was also not executed.

- The unexecuted operating agreement did not address commercial activities performed by the Athletic Corporation (i.e., Bulldog Shops).
- The unexecuted athletics facilities master lease agreement did not appear to sufficiently articulate the consideration for the use of campus facilities.
- No operating agreement was established between the Athletic Corporation and the CSU prior to July 1, 2001.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University and Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

Education Code §89046 and Title 5 §42601 and §42502 mandate that auxiliaries appropriately pay rent on space in tax-supported buildings.

The assistant accounting manager for athletics indicated that current corporation management was addressing this issue.

Operating in the absence of up-to-date, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 58

We recommend that the Athletic Corporation take appropriate measures to ensure that lease and operating agreements between the campus, the CSU, and the Association reflect current requirements and be executed in a timely manner.

Campus Response

We concur. In 2002, the vice president for administration assigned a campus employee to monitor the status of all auxiliary operating agreements and leases. This step should help us to ensure that operating agreements and leases stay current.

The Athletic Corporation operating agreement with the Trustees was recently executed, and does reflect current requirements, including retail services performed by the Bulldog Shop. The corporation is currently working to complete its facilities master lease agreement, which is expected to be executed by December 2003.

PUBLIC MEETINGS

Notices of the Athletic Corporation board of directors' and committee meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The assistant accounting manager for athletics indicated that the Athletic Corporation was under the impression that the office of public information posted the agendas provided to it.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

Recommendation 59

We recommend that the Athletic Corporation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. In the future, board of director and committee meeting notices will be posted in the University Student Union.

MEETING QUORUM

A quorum was not present during four Athletic Corporation board of directors' meetings held during the period extending from June 2000 through June 2001.

Based on a review of board minutes, the number of directors needed to constitute a quorum was not present during board meetings held on June 27, 2000, November 30, 2000, April 6, 2001, and June 15, 2001. Business was transacted at each of the meetings without benefit of a quorum. For example, at the June 27, 2000, meeting the Athletic Corporation's five-year plan and budget was approved without a majority of board members present.

The Athletic Corporation's bylaws, Section 8, state that the presence of a majority of the qualified directors entitled to vote shall constitute a quorum for the transaction of business.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the board of directors operate in accordance with the guidelines set forth in the corporate bylaws.

The assistant accounting manager for athletics indicated that there may have been a misunderstanding over the definition of a quorum.

Non-compliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 60

We recommend that the Athletic Corporation take appropriate measures to ensure that business is not transacted at future board meetings unless a quorum, as defined in the corporate bylaws, is present.

Campus Response

We concur. It has been clarified that a quorum is defined as more than 50 percent of the voting board members.

BUDGET

Written documentation of the campus president's approval of the Athletic Corporation's operating budget for fiscal year 2000-2001 could not be located.

We found that the procedures for preparing and reviewing the Athletic Corporation's budget needed improvement. Budgets prepared for fiscal years ended June 2000 and 2001 did not include detailed comparisons to prior year forecasts, provide narrative descriptions for key operating assumptions, or identify non-operating sources of revenue. In addition, based on a review of board minutes, it appeared that budgeted forecasts were not reviewed and/or compared to actual results on an ongoing basis by the board of directors.

Title 5 §42402 states that the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that budgets contain sufficient detail and be prepared in a complete and timely manner.

The assistant accounting manager for athletics indicated that the prior corporate management failed to submit the budget to the president.

The lack of supporting documentation evidencing appropriate approval of auxiliary budgets increases the risk of misunderstandings over the allocation of funds.

Recommendation 61

We recommend that the Athletic Corporation:

a. Coordinate with the campus to take appropriate measures to ensure that budget information is submitted to the campus president for approval in a timely manner.

b. Enhance budget documentation by including narrative assumptions, details regarding all revenue sources, and comparisons to prior year's forecast.

c. Implement a procedure requiring the board of directors to review budget to actual results on an ongoing basis.

Campus Response

We concur. The following actions are being taken:

a. The corporation board of directors and audit committee will continue to schedule meetings in early to mid-May of each year for the main purpose of finalizing the following year budget. Once approved by the board, the budget is submitted to the university president for approval.

b. The corporation will evaluate disclosures contained in the budget consistent with the recommendation, and will upgrade budget disclosures as deemed appropriate for the 2004-2005 fiscal year. The evaluation of disclosures will be completed by December 2003.

c. In the summer of 2002, the board established an audit committee. In its charter, the audit committee was assigned the responsibility for monitoring quarterly budget versus actual results, and then reporting to the board on those results. This process was operational and effective during the 2002-2003 fiscal year.

RESERVES

The Athletic Corporation had not established a written surplus funds/reserve policy.

Such a policy should address or consider the following areas:

- Minimum reserve requirements.
- The inclusion of reserves in the budget submitted to the campus president.
- Board review of reserve levels.
- Reserves for working capital and capital replacement.
- The methodology used for the calculation of reserves.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The assistant accounting manager for athletics indicated that some corporate policies were noted only in board pronouncements, and not documented in separate written policies.

Insufficient reserve planning and analysis increase the auxiliary's risk to fund future needs.

Recommendation 62

We recommend that the Athletic Corporation coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

We concur. We will develop and implement a written surplus funds/reserve policy by December 2003.

CONFLICT OF INTEREST

The Athletic Corporation had not developed written conflict-of-interest policies and procedures.

A campus memorandum dated April 4, 2002, advised the auxiliaries on the legal requirements related to conflict of interest and requested each auxiliary to develop and implement, or strengthen, its conflict-of-interest policy.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice includes establishing conflict-of-interest policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The assistant accounting manager for athletics indicated that the Athletic Corporation was aware of the need for board members with potential conflicts to file conflict-of-interest statements, but was not aware of the need for development of a formal policy on the matter.

Failure to develop conflict-of-interest policies and procedures increases liability for acts contrary to the code.

Recommendation 63

We recommend that the Athletic Corporation, in coordination with the campus, develop a formal conflict-of-interest policy.

Campus Response

We concur. The board adopted a written conflict-of-interest policy in the fall of 2002.

SEGREGATION OF DUTIES

The Athletic Corporation did not appropriately segregate certain accounting functions for accounts receivable, accounts payable, and personnel and payroll.

Accounts Receivable

We found that the assistant ticket manager and the interim ticket manager:

- Invoiced and/or created accounts receivables (for group and season tickets sales).

- Received payments, maintained subsidiary records, and performed collection activity/assessed collectibility.

For both ticket managers, activity was recorded to the general ledger by the business office only at fiscal year end.

The assistant accounting manager for athletics indicated that a recent rash of turnover in the ticket office and accounting office has resulted in a temporary consolidation of duties for some staff.

Accounts Payable

We found that the accounting manager:

- Served as a check signer.
- Had access to blank check stock and the check-signing machine.
- Authorized disbursements and approved bank reconciliations.
- Had full access to the general ledger system.

Similarly, we found that the assistant accounting manager:

- Had access to blank check stock.
- Had access and operated the check-signing machine and prepared bank reconciliations.
- Authorized disbursements (budgetary).
- Approved accounts payable for check runs.
- Performed transfers of bank funds.
- Had full access to the general ledger.

The assistant accounting manager for athletics indicated that these deficiencies were not addressed by the former business manager.

Personnel and Payroll

We found that the payroll technician:

- Entered new employees.
- Deleted employees.
- Processed time cards (manually and via the electronic time card system) and entered/updated payroll data (rate changes etc.).
- Received payroll checks from the payroll service.
- Placed checks in envelopes.
- Prepared checks for distribution.
- Was the only employee with access to the payroll and timekeeping programs.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The interim assistant controller for athletics indicated that the failure to identify incompatible duties was due to inadequate management oversight.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 64

We recommend that the Athletic Corporation properly segregate certain accounting functions for accounts receivable, accounts payable, and personnel and payroll or institute mitigating procedures approved by the campus.

Campus Response

We concur. Athletics will evaluate staff assignments and properly segregate accounting functions by October 15, 2003.

CASH RECEIPTS AND HANDLING

CASH RECEIPTS

Certain controls over Athletic Corporation cash receipts processing were deficient.

We found that:

- The employee opening the mail did not prepare a prelisting or log of checks received.

- Checks were not restrictively endorsed immediately upon receipt.
- Employees were used to transport deposits from outlying areas to the business office without security escort.
- Undeposited funds were not always adequately safeguarded.
- Local accountability was not established at the ticket office where two access codes were used by the entire staff to gain entry into the cashiering system.
- Cash receipts were not always forwarded in a timely manner by the ticket office to the business office for deposit.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate internal controls over cash receipts processing.

The assistant accounting manager for athletics indicated that the Athletic Corporation had not developed written procedures in these areas for employees to follow.

Inadequate controls over cash receipts processing increase the risk of loss or misappropriation of funds.

Recommendation 65

We recommend that the Athletic Corporation:

a. Prepare a log or prelisting of all checks received to be maintained by the employee that opens the mail.

b. Ensure that all checks are restrictively endorsed immediately upon receipt.

c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort.

d. Ensure undeposited funds are adequately safeguarded.

e. Establish local accountability at the ticket office with respect to access to the cashiering system.

f. Ensure that deposits are forwarded in a timely manner from the ticket office to the business office for deposit.

Campus Response

We concur. The following actions are being taken:

a. The athletics business office employee that opens incoming mail now maintains a log of all incoming checks.

b. Athletics is restrictively endorsing checks received in all departments as soon as they are received.

c. Athletics will evaluate its options relative to the transportation of deposits from outlying areas by October 15, 2003.

d. Undeposited funds in the ticket office, Bulldog Shop, and business office are now kept in safes until ready for deposit.

e. Personal access codes have been assigned to all ticket office employees.

f. The ticket office has been instructed to make timely transfers of funds to the business office.

EVENT TICKETS

Controls over the accountability for tickets at the Athletic Corporation were inadequate.

We found that:

- A log was not consistently maintained to control and account for the use of blank ticket stock.
- Tickets sold were not consistently reconciled to cash receipts.
- Although ticket stock is prenumbered, tickets generated (i.e., sold, unsold, complimentary, voids, trade-outs, etc.) were not numerically or sequentially controlled or otherwise accounted for.
- Tickets issued for complimentary and trade-out purposes were not recorded to the general ledger.
- Policies and procedures for the trade-out process were not sufficiently documented. Such procedures should address, among other things, the process for requesting, processing, and approving trade-outs, accountability over tickets issued, policy for assessing/documenting the value of services received, and tax and regulatory considerations with regards to such transactions.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that strong controls be maintained over the accountability for tickets.

The assistant accounting manager for athletics indicated that the Athletic Corporation had never developed written procedures for these areas.

Inadequate controls over ticket accountability increase the risk of errors or misappropriation.

Recommendation 66

We recommend that the Athletic Corporation:

a. Maintain a log to control and account for the use of blank ticket stock.

b. Perform a monthly reconciliation of ticket sales to cash receipts.

c. Numerically or sequentially control or otherwise account for all tickets generated.

d. Record complimentary tickets and trade-out transactions to the general ledger.

e. Develop and implement appropriate policies and procedures for the trade-out process, which address, among other things, the process for requesting, processing, and approving trade-outs, accountability for tickets issued, policy for assessing/documenting the value of services received, and tax and regulatory considerations with regards to such trade-out transactions.

Campus Response

We concur. We will take the following actions:

a. We will maintain a log to control and account for the use of blank ticket stock. The log will be in place by August 31, 2003.

b. While we agree that a periodic reconciliation should be performed, we need to determine if a monthly or seasonal reconciliation is more appropriate and feasible. We will make this determination and implement a periodic reconciliation process by December 2003.

c. We will ensure that all ticket stock is numerically or sequentially controlled for all tickets generated by September 30, 2003.

d. The ticket office will develop a system for informing the business office of trade-out activity as it is posted to the ticketing system so that appropriate postings can be made to the general ledger. This process will be operational by November 30, 2003.

e. We will develop trade-out processes consistent with the recommendation, and will implement these procedures by November 30, 2003.

TICKET OFFICE SECURITY

Security at the Athletic Corporation ticket office required improvement.

We found that the ticket office:

- Lacked sufficient security cameras observing the premises.
- Did not restrict access into the ticket office and interior work areas.
- Did not appropriately secure the walk-up windows with protective glass.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate security over facilities which handle cash receipts.

The assistant accounting manager for athletics indicated that the ticket office was designed when facilities were much smaller.

The lack of appropriate security increases the potential for crime and misappropriation of funds.

Recommendation 67

We recommend that the Athletic Corporation analyze the cost benefit of improving security at the ticket office.

Campus Response

We concur. We will analyze the cost benefit of improving ticket office security. This study will be completed by December 2003.

PETTY CASH AND CHANGE FUNDS

Independent, unannounced counts were not performed at the Athletic Corporation/Bulldog Shop, and sufficient documentation was not available to evidence such counts were conducted at the ticket office.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The assistant accounting manager for athletics indicated that management performed unannounced counts only when there were concerns indicating that counts were needed.

Failure to perform periodic and independent, unannounced counts of change funds increases the risk that misappropriated funds will not be detected.

Recommendation 68

We recommend that the Athletic Corporation develop and implement change fund procedures which require periodic and independent, unannounced cash counts.

Campus Response

We concur. We will develop and implement change fund procedures calling for periodic and independent, unannounced cash counts. These procedures will be implemented by October 31, 2003.

INVESTMENTS

The Athletic Corporation's policies and procedures over the management and administration of investments required improvement.

We found that:

- The investment policy, from the 1980s, did not specifically address, among other things, investments in mutual funds or Local Agency Investment Funds (LAIF), prohibited investment vehicles, guidelines for an acceptable rate of return, monitoring of cash flow, management oversight/responsibilities over investments, or guidance for the accounting for investments (i.e., recording of earnings, reconciliations, etc.).
- In May 1997, the Athletic Corporation's board adopted, contrary to the investment policy, a resolution which gave the former general manager unconditional approval to enter into derivative transactions, such as interest rate swap or forward transactions.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient investment policies and procedures be maintained, which would include appropriate management oversight.

The assistant accounting manager for athletics indicated that former corporate management was unaware of the need to amend the investment policy.

Insufficient investment policies and procedures and lack of appropriate management oversight increase the risk that investments will be handled inappropriately.

Recommendation 69

We recommend that the Athletic Corporation enhance its investment policies and procedures to provide further guidance over the management and administration of investments. Such policies and procedures should be subject to the review and approval of the Athletic Corporation's board of directors.

Campus Response

We concur. We will amend the investment policy and related procedures, and drafts of these policy and procedure revisions will be presented to the board for review prior to December 31, 2003.

FEES, REVENUES, AND RECEIVABLES

Certain controls over Athletic Corporation accounts receivable were deficient.

We found that:

- Written policies and procedures had not been developed for the collection/follow-up process or the handling of write-offs and uncollectible accounts receivable. In addition, an aging report was not maintained for certain accounts receivable (group and season ticket sales) administered by the ticket office.

- The accounts receivable function was not centralized. Invoicing, receipt of payments, and collection activity/follow-up occurred at several different areas, such as the business office, the ticket office, the marketing department, personal seat license (PSL) office, and facilities. We noted that transactions between the marketing department and the ticket office relating to group ticket sales resulted in double invoicing and, potentially, the overstatement of accounts receivable and revenue. In addition, ticket office accounts receivable were only submitted to the business office and recorded to the general ledger at fiscal year end.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate internal controls over accounts receivable.

EO No. 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The assistant accounting manager for athletics indicated that accounts receivable collection practices had remained unchanged for years, and were based on informal understandings.

Insufficient controls over accounts receivable increase the risk of loss, errors, or irregularities.

Recommendation 70

We recommend that the Athletic Corporation:

a. Document and implement policies and procedures to ensure the timely collection/follow-up of outstanding receivables and the proper handling of write-offs and uncollectible accounts.

b. Centralize the accounts receivable function to improve controls over invoicing, remittance of payments, and collection/follow-up.

Campus Response

We concur. We will develop and implement policies and procedures that will ensure the timely collection/follow-up of accounts receivable and the proper handling of write-offs and uncollectible accounts. We will also centralize the accounts receivable function within the business office. These changes will be completed by December 2003.

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT PROCESS

The Athletic Corporation's purchasing policies and procedures were not fully documented.

We found that written purchasing policies and procedures had not been developed which address the following:

- Vendor selection process.
- Responsibilities for verifying contract provisions and ongoing contract monitoring.
- The process for receiving purchased items and prohibited purchases/purchasing practices.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate documentation of procurement policies and procedures.

The assistant accounting manager for athletics indicated that this was due to an oversight.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

Recommendation 71

We recommend that the Athletic Corporation fully develop written procurement policies and procedures regarding purchasing and receiving functions and responsibilities.

Campus Response

We concur. Appropriate procurement policies and procedures will be developed and submitted to the audit committee for review by December 2003.

SUPPORTING DOCUMENTATION

Certain Athletic Corporation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 172 cash disbursements disclosed the following:

<u>Process Controls</u>

- Requisition forms did not require a stated purpose for the disbursement or the date authorized by the approving official.
- Policies and procedures for salary advances were incomplete. The documented policies and procedures did not provide written criteria for advances, a requirement for the specific reason for the advance written on the request, identification of the approving official, and repayment schedule.
- Written policies and procedure that prohibited an official from authorizing his/her own purchase or payment (i.e., one-up authorization) had not been developed.
- Signature authorizations (i.e., signature cards) for those individuals designated to approve cash disbursements were not maintained.

<u>Processing Exceptions</u>

- In five instances, documentation to support an expenditure was not on file. The five expenditure amounts ranged between $500 and $10,000.
- In nine instances, a facsimile invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- In 11 instances, a photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- In five instances, receipts were not compiled to support credit card payments.

- In two instances, a payment for a personal credit card account was not supported by the billing statement.
- In three instances, the receipts were not provided to support student host allowances for recruiting visits.
- In four instances, petty cash was reimbursed without all receipts.
- In three instances, receipts were not provided to substantiate a travel claim, including a $1,000 tip to the bus driver.
- In five instances, payments included late charges.
- In two instances, the courtesy car recipient did not reimburse for the insurance deductible for repairs resulting from an accident.
- In one instance, two employees reporting the same address were paid $600 each to provide auto-detailing service on eight Athletic Corporation vans. The payments for service were not reported as income for the employees. Additionally, one of the employees received a salary advance of $500 one week prior to her payment for auto-detailing services.
- In two instances, football coaches received gift certificates for non-athletic clothing apparel. The gift certificates provided to the football coaches collectively totaled $9,000 and were not reported as income to the employees.
- In 21 instances, expenditures for food and beverage did not provide the purpose for the activity.
- In 36 instances, the expenditure for a hospitality event did not provide the names of participating individuals.
- In one instance, authorization and explanation for first-class airline travel was not documented.
- In one instance, the employee did not provide reimbursement for the amount by which his automobile lease payment exceeded his automobile allowance.
- In one instance, student assistants were paid cash without a timecard or consideration of taxable withholdings.
- In three instances, payment for country club membership dues was not supported with an explanation for meeting the educational mission of the university, nor was the amount paid reported as income for the employee benefiting from the membership.
- In one instance, a reimbursement for staff equipment included a child's shoes.
- Justification for the value of vehicles (courtesy cars) provided by third parties to support reportable/taxable income for employees in the athletic department was not documented.

- In 64 instances, check requisitions were not approved by an administrator as required by the check requisition form.
- In four instances, the approving official authorized his own reimbursement or payment for personal expenses.
- In six instances, a peer authorized an approval for reimbursement.
- In four instances, the appropriate sport supervisor did not authorize the expenditure.
- In five instances, the expenditure for a support group activity did not receive administrative approval from the president or treasurer.
- In three instances, administrative approval was photocopied.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and authorized.

The assistant accounting manager for athletics indicated that the deficiencies noted were due, in part, to inadequate policies and procedures and also, in part, due to a lack of communication between various corporate departments.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 72

We recommend that the Athletic Corporation develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. Steps have already been taken to address many of the deficiencies noted. However, the need for clear and concise procedures governing expenditure documentation and approval is acknowledged. Such procedures will be presented to the audit committee by December 2003.

RAFFLE

The Athletic Corporation was not registered to conduct and/or participate in the operation of a raffle.

We found that two prizes, in the amounts of $3,646 and $35,700, were disbursed from Athletic Corporation funds held in trust on behalf of an athletic booster club. One prize was given to the winner of a share-the-pot 50/50 raffle, while no documentation was available for the other raffle. Neither the Athletic Corporation nor the booster club was registered to conduct a raffle.

California Penal Code §320.5 states that an eligible organization may not conduct a raffle authorized under this section, unless it registers annually with the Department of Justice.

The assistant accounting manager for athletics indicated that the booster club sponsoring the raffle should have registered for the activity if required to do so.

Unauthorized raffles increase the auxiliary's and campus' exposure to potential liability.

Recommendation 73

We recommend that the Athletic Corporation refrain from participation in any unauthorized raffles.

Campus Response

We concur. We will not conduct unauthorized raffles, and we will notify all support groups of the provisions of Penal Code §320.5.

BANK RECONCILIATIONS

Athletic Corporation bank reconciliations were not signed or dated by the preparer, or approved by the reviewer, in a timely manner. In addition, unreconciliable differences were not identified and cleared in a timely manner.

Our review of bank reconciliations for the six months ended June 30, 2002, disclosed that:

- Bank reconciliations were not signed or dated by the preparer.
- Bank reconciliations prepared for the six-month period ended June 30, 2002, were not signed off by the reviewer until July 24, 2002.
- Unreconcilable differences identified in February 2002 were not cleared until June 2002 when they were corrected through journal entries.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates maintaining a complete and timely bank reconciliation process.

The assistant accounting manager for athletics indicated that the business office struggled with the bank reconciliations following an upgrade in ticketing/accounting system software, but was now reconciling the accounts on a timely basis.

Failure to complete bank reconciliations in a timely manner increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 74

We recommend that the Athletic Corporation:

a. Ensure that bank reconciliations are prepared and reviewed in a timely manner and signed and dated by the preparer and the reviewer.

b. Properly identify and clear all unreconcilable differences and adjusting items in a timely manner.

Campus Response

We concur. The business office is current in all its bank reconciliations, and will continue to complete monthly reconciliations no later than 30 days after each month-end. In addition, irreconcilable differences will be cleared in a timely fashion.

UNCLAIMED MONIES

The Athletic Corporation had not developed policies and procedures to escheat unclaimed monies to the state.

Outstanding payroll and accounts payable checks over one-year-old are transferred to an unclaimed liability account, which, as of June 30, 2002, totaled approximately $35,000.

Code of Civil Procedures, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The assistant accounting manager for athletics indicated that this requirement was simply overlooked.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 75

We recommend that the Athletic Corporation, in conjunction with the campus, develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

We concur. The Athletic Corporation will work with the university controller to develop and implement policies and procedures for handling unclaimed monies. These procedures will be implemented by December 2003.

PERSONNEL AND PAYROLL

TIME REPORTING

Electronic timecard information/payroll reports were not reviewed and/or approved by superviors at the Athletic Corporation.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate payroll processing procedures.

The assistant accounting manager for athletics indicated that a procedure to require departments to approve payroll reports provided to them had not been developed.

Inadequate controls over payroll processing increase the risk of a loss or misappropriation of funds.

Recommendation 76

We recommend that the Athletic Corporation ensure that timecard information/payroll reports are reviewed and/or approved by supervisors.

Campus Response

We concur. The assistant controller for athletics reviews and approves all expenditures, and now ensures that supervisors approve all timecard information/payroll reports.

PAYROLL DATABASE

Controls over the Athletic Corporation payroll database required improvement.

We found that the payroll database contained over 800 entries and, thus, required updating to purge or deactivate persons no longer employed. In addition, we found no process in place to notify payroll of part-time or temporary employees that were no longer being utilized so that they could be removed or deactivated from the payroll system.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient controls be maintained over the payroll database.

The assistant accounting manager for athletics indicated that the Athletic Corporation hires many part-time employees for event staffing and that it had been several years since a review of employees in the system had been conducted.

Insufficient controls over the payroll database increase the risk of errors or misappropriation of funds.

Recommendation 77

We recommend that the Athletic Corporation:

a. Review the payroll database to purge or deactivate those employees no longer active.

b. Develop and implement procedures for timely notification to payroll of part-time and temporary employees no longer being utilized.

Campus Response

We concur. We have already deactivated all employees who have not received a paycheck in two years. We will continue this process on a periodic basis. In addition, the business office will submit periodic reports on part-time employees to the ticket office, the Bulldog Shop, and facilities maintenance. These offices will then be able to indicate which employees in the payroll system should be deactivated. The first such report will be distributed by October 31, 2003.

FIXED ASSETS

Certain controls over Athletic Corporation fixed assets were inadequate.

We found that:

- Policies and procedures had not been developed for the management and administration of fixed assets. Such policies and procedures should address accountability and responsibility for equipment; control over additions and deletions of inventory; procedures for tagging equipment including sensitive assets; inventory requirements; off-site use of equipment; property sales and dispositions; and property inventory reconciliations to financial records.

- A complete physical inventory of fixed assets had not been performed in a number of years.

- Fixed assets had not been tagged on a consistent basis for a number of years.

- Fixed asset tag numbers had not been entered into the fixed asset database (subledger) maintained by the business office. In addition, the fixed asset database was not reconciled to any records maintained by facilities for tagged fixed assets.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong controls over fixed assets.

The assistant accounting manager for athletics indicated that this had not been a priority of former corporate management.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

Recommendation 78

We recommend that the Athletic Corporation:

a. Develop and implement policies and procedures for the management and administration of fixed assets.

b. Perform a complete physical inventory of fixed assets and reconcile the results to the fixed asset and general ledgers.

c. Establish appropriate guidelines for the tagging of fixed assets.

d. Establish a process for entering fixed asset tag numbers into the fixed asset database maintained by the business office.

Campus Response

We concur. Athletics will develop and implement a complete fixed asset management system consistent with the recommendation. The new policies and procedures will be in effect by December 2003.

INVENTORIES

Inventory carried on a consignment basis by the Athletic Corporation/Bulldog Shop was not supported by a written agreement.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that consignment arrangements be supported by written agreements.

The assistant accounting manager for athletics indicated that the consignment agreement between the Bulldog Shop and the alumni association had been handled on an informal basis.

The absence of a written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 79

We recommend that the Athletic Corporation ensure that all consignment arrangements are fully supported by written agreements.

Campus Response

We concur. We will execute agreements relative to all consignment arrangements by December 2003.

INFORMATION TECHNOLOGY

USER ACCESS

Athletic Corporation user profiles did not provide for proper segregation of duties.

We found that the accounting application was not configured to restrict access to only those persons requiring access to selected modules. Thus, both the accounting manager and the assistant accounting manager had full access to the accounting system. It was also noted that the Athletic Corporation allowed the former ticket office manager, currently an employee with a booster club, limited access to the accounting/ticketing system.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The assistant accounting manager for athletics indicated that the corporation had only recently entered into an arrangement for information technology (IT) support required to implement the appropriate controls.

Inadequate segregation of duties/functions increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 80

We recommend that the Athletic Corporation review its accounting system user profiles to ensure the appropriate segregation of duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. We will conduct an analysis of system user profiles in order to limit user access where necessary in order to provide an adequate separation of duties/functions. This process will be completed by November 30, 2003.

INFORMATION TECHNOLOGY SUPPORT

The Athletic Corporation had not established consistent, ongoing support for data processing operations to ensure efficient and effective use of computer resources.

We found that:

- Attention was needed in the overall management and monitoring of IT services including: development of an IT strategic plan that aligns IT planning with the strategic direction of the Athletic Corporation and positions the IT services as a strategic resource; creation and maintenance of a current inventory of equipment to assist in identifying future capital expenditure outlays; creation and implementation of information security policies; and providing ongoing security monitoring and oversight.

- A written disaster recovery plan for data processing services did not exist to ensure timely recovery of service, and backup tapes were taken off-site and personally retained at an employee's home, which simply stated, substitutes one set of risks with another.

- System security requires significant improvement especially regarding accountability of system ROOT level access, implementation of a firewall between the Public Internet and the R/S 6000 computer, and security monitoring and intrusion detection procedures.

- Consultants (software vendor) have unlimited access to the computing system, and there was no provision to monitor access by the vendor, ensure system integrity, or validate the authenticity of access.

- Physical and logical access to the computing system had not been appropriately restricted. Additional controls should be implemented concerning control over keys that allow access to the computer room, implementing after-hour security measures, and improved smoke detection and fire protection.

EO No. 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Athletic Corporation PSL coordinator indicated that due to his transfer to the SaveMart Center project, his efforts for supporting data processing for the Athletic Corporation had been reduced to an as-needed basis and that a decision was pending regarding permanent support for IT operations.

The lack of consistent monitoring and support for IT operations increases the risk of unauthorized and inappropriate accounting entries, and inadequate planning and protection of computer systems could result in an unexpected disruption in data processing operations.

Recommendation 81

We recommend that the Athletic Corporation take appropriate measures to establish consistent ongoing support for data processing operations that address the concerns outlined above to ensure efficient and effective use of computer resources.

Campus Response

We concur. Athletics is currently in the process of hiring a full-time network analyst. This position will be able to address all of the concerns outlined in the finding. This position should be filled by September 30, 2003.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

The PFC operating agreement with the CSU did not sufficiently address all aspects of PFC operations on the campus, nor was the operating agreement executed in a timely manner.

PFC operated without a written agreement from July 1, 1999, through January 9, 2002. Functions not articulated in the operating agreement included fund-raising.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University and Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions, which the organization is to manage, operate, or administer.

The PFC executive director believed that management was unaware the operating agreement was not sufficiently specific in its descriptions of functions.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 82

We recommend that the CSU and PFC update its operating agreement to specify all functions operated by the auxiliary organization.

Campus Response

We concur with the finding. However, the existing operating agreement between PFC and the Trustees of the CSU currently reflects the sum of activities in which PFC engages, as PFC no longer engages in extraneous activities.

LEASING OF FACILITIES

Certain PFC lease and sublease arrangements were not properly supported by written agreements.

PFC operated without a signed facility lease with the campus from July 1, 1999, through January 9, 2002. Further, PFC operated without a signed facility lease with an external landlord from July 1, 2000, through August 31, 2002.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that facility lease arrangements be properly supported by written agreements.

The campus associate provost for academic affairs indicated that the lack of appropriate written lease agreements was due to management oversight.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

During the course of our fieldwork, PFC executed necessary lease agreements with its external facilities provider.

WRITTEN AGREEMENTS

The use of state resources was not sufficiently articulated in written agreements between PFC and the campus.

PFC had a written agreement with the campus, but it did not address certain furniture, computers, and computer-related services.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by written agreements.

The PFC executive director stated that he was unaware that the operating agreement was not sufficiently inclusive.

The absence of a complete, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 83

We recommend that PFC sufficiently articulate the use of state resources in a written agreement with the campus.

Campus Response

We concur. We will work with campus officials and the Association's in-house legal counsel to develop appropriate agreements by December 2003.

PUBLIC MEETINGS

Notices of PFC board of directors' and committee meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The PFC executive director indicated that management was unaware that public notices of meetings were not being posted.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

Recommendation 84

We recommend that PFC post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Since December 2, 2002, meeting notices have been posted on a bulletin board at each of the four child-care centers.

BOARD MINUTES

PFC board of directors' meeting minutes were not signed and approved by an appropriate official.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates complete and accurate minutes signed by an appropriate official.

The PFC executive director indicated that management was unaware that the board secretary, rather than the chair of the board, needed to sign the minutes.

Failure to have board of directors' meeting minutes signed by an appropriate official increases the risk of misunderstandings and may increase legal liability.

Recommendation 85

We recommend that PFC take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. Board minutes have been signed by the appropriate official since September 9, 2002.

SALARIES AND BENEFITS

PFC had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The PFC executive director indicated that PFC had not undertaken such a comparison.

Failure to fully document the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 86

We recommend that PFC perform and document an analysis of all auxiliary and campus salaries, wages, and benefits.

Campus Response

We concur. A comparative analysis will be completed by the Association's human resources department by December 2003.

BUDGET

PFC did not submit certain annual budgets to the campus president for approval in a timely manner, nor could PFC provide documentation evidencing the president's approval of those budgets.

Title 5 §42402 requires the auxiliary to submit its programs and budgets for review in a timely manner as specified by the president (or designee).

The PFC executive director indicated that the newness of the organization contributed to the delay of the first two years' budgets. He further indicated that the budgets were submitted and approved by the campus president; however, the approval memos could not be located during the audit visit.

Untimely budget submission and lack of supporting documentation evidencing appropriate approval of auxiliary budgets increase the risk of misunderstandings over the allocation of funds.

Recommendation 87

We recommend that PFC take appropriate measures to ensure that budgets are prepared in a timely manner and approval documentation is properly retained.

Campus Response

We concur and have resolved this item. The 2003-2004 budget was reviewed and signed by the president on June 5, 2003.

RESERVES

PFC had not established a complete, written surplus funds/reserve policy.

Such a policy should address or consider the following areas:

- The inclusion of reserves in the budget submitted to the campus president.
- Reserves for working capital and capital replacement.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The PFC executive director indicated that a board-approved reserve policy does exist. He further indicated that the budget does include a yearly projected surplus (reserve), but PFC had not provided the president with cumulative reserve (surplus) levels within the budgets it has submitted. Additionally, he indicated that the reserves had not been separated into capital and capital replacement categories.

An incomplete reserve policy increases the auxiliary's risk to fund future needs.

Recommendation 88

We recommend that PFC coordinate with the campus to establish a complete, written policy for the allocation of surplus funds/reserves.

Campus Response

We concur. A more-extensive reserve policy will be prepared and presented to PFC's board of directors by December 2003.

RISK MANAGEMENT

Client records were inadequately secured by PFC.

We found that:

- Invoices containing the children's names and addresses, as well as other personal information, were maintained in the logbooks at the front desk, easily accessible to the public.

- Inactive children's files containing confidential information were not adequately secured within an unlocked storage facility.

- Inactive children's files were retained past their legal destroy date.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the physical security of records.

The PFC program director indicated that the lack of security concerning the invoices and inactive files, as well as the failure to destroy obsolete files, was a result of management oversight.

Inadequate client record security may increase legal liability.

Recommendation 89

We recommend that PFC:

a. Place invoices in sealed envelopes.
b. Provide and adequately secure the storage facility for inactive student records.
c. Destroy obsolete records when legally permissible.

Campus Response

We concur. The following actions have been taken in order to address these recommendations:

a. Parent invoices are placed in sealed envelopes; each child's envelope is secured to his or her sign-in sheet.

b. All inactive student records are placed in locked storage areas.

c. Records over five years old were destroyed in April 2003. Beginning in July 2003, records that are over five years old will be destroyed during the first month of the fiscal year.

PROGRAMS

PFC neither developed written policies and procedures regarding the application, review, acceptance, and administration of contracts and grants, nor secured approval from the campus president or his designee for these projects.

Per campus policy, the Foundation is designated as the organization responsible for administering such contracts and grants for the campus.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be developed for the administration of contracts and grants.

EO No. 168, *The California State University and Colleges Auxiliary Organizations - Administration of Grants and Contracts in Support of Research, Workshops, Institutes, and Other Special Instructional Projects*, dated January 19, 1973, contains general policies relating to the administration of contracts, grants, and special education projects. The policy includes requirements for the review and approval of proposals for contracts and grants, acceptance of awards, review of fiscal aspects, travel and travel expense approval, and hiring of personnel.

The PFC program director indicated that management had believed the president's indirect approval of the grants through the annual budget process was sufficient.

The absence of proper authorization and administration for contracts and grants increases the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus and that contracts and grants will be inappropriately managed.

Recommendation 90

We recommend that PFC develop and implement written policies and procedures regarding the application, review, acceptance, and administration of contracts and grants, if authorization to apply for and administer grants is received.

Campus Response

We concur. Appropriate procedures have been developed and implemented. For example, in the 2002-2003 fiscal year, PFC provided the Foundation with copies of all contracts, the 2002-2003 budget, and program evaluation. In addition, a Project Information Form (PIF) was generated for each proposal. For 2003-2004, the same procedures will be followed.

SEGREGATION OF DUTIES

PFC did not appropriately segregate certain accounting functions for cash receipts and accounts receivable.

Cash Receipts

We noted that the same individual:

- Received and processed the cash receipts.
- Prepared the deposit.

The PFC program director stated that duties were not segregated due to limited staffing.

Accounts Receivable

We found that the same individual:

- Entered client set-up data and fee information into the computer system.
- Maintained the clients' attendance records, from which billing is calculated.
- Prepared the billings and posted them to the subledger.
- Prepared the monthly revenue and cash receipts summary and forwarded to the business accountant for posting to the general ledger.
- Receipted cash and posted the receipts against the client's accounts receivable records.

EO No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The PFC program director stated that lack of management oversight, in combination with a one-person office at one of the sites, contributed to an inadequate segregation of duties.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 91

We recommend that PFC properly segregate certain accounting functions for cash receipts and accounts receivable duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. PFC will diagram and review accounting functions with the university's chief financial officer by December 2003 to ensure proper segregation of duties.

CASH RECEIPTS AND HANDLING

Certain controls over PFC cash receipts processing were deficient.

We found that:

- Checks received through external mail sources were not logged and/or prelisted upon receipt.
- The deposit slips/receipts were not prenumbered.
- Checks were not restrictively endorsed immediately upon receipt.
- Cash receipts were not processed on a timely basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient internal controls be maintained over cash receipts processing.

The PFC executive director indicated that the lack of written policies and procedures and management oversight contributed to the deficiencies noted.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 92

We recommend that PFC:

a. Log all checks immediately upon receipt.
b. Use prenumbered deposit slips/receipts.
c. Restrictively endorse all checks immediately upon receipt.
d. Develop and implement procedures to ensure timely processing of receipts.

Campus Response

We concur. Appropriate procedures will be developed and implemented by December 2003.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Certain controls over PFC accounts receivable were inadequate.

We found that:

- Subsidiary ledgers were not reconciled to the general ledger on a periodic basis.
- Documentation supporting the write-off of accounts receivable was inadequate.
- Parent fee revenue and receivables were not recorded on a timely basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates proper internal controls over accounts receivable.

The PFC program director indicated that the lack of written policies and procedures and management oversight contributed to the accounts receivable deficiencies.

Insufficient controls over accounts receivable increase the risk of loss, errors, and irregularities.

Recommendation 93

We recommend that PFC:

a. Reconcile the accounts receivable subledger to the general ledger on a monthly basis.
b. Properly document the accounts receivable write-offs, including authorization and justification.
c. Ensure all accounts receivables and revenues are properly and timely recorded.

Campus Response

We concur. Appropriate procedures will be developed and implemented by December 2003.

UNRELATED BUSINESS INCOME

PFC had not accounted for, or tracked, UBI in a sufficient manner.

We found that PFC had no procedures in place to track UBI related to child-care fees paid by community members, nor did PFC file an IRS form 990T.

IRC §512 through §514 defines an unrelated trade or business of an exempt organization as any trade of business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of $1,000 must be reported to the IRS, whether or not a tax liability is incurred. In addition, the organization's tax-exempt status may be jeopardized if too large a proportion of its revenue is derived from UBI.

The PFC executive director indicated management was unaware that providing child-care to non-campus personnel resulted in UBI.

Failure to properly analyze, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

Recommendation 94

We recommend that PFC analyze and document its operations for UBI and file federal income tax returns as appropriate.

Campus Response

We concur. During the 2002-2003 annual financial audit, the external auditors will be instructed to analyze whether PFC is liable for UBI taxes on child-care fees paid by community members. Appropriate income tax filings will be completed if deemed necessary. These actions will be completed by December 2003.

PURCHASING AND ACCOUNTS PAYABLE

Certain PFC cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 60 cash disbursements disclosed the following:

Process Controls

- PFC did not maintain a listing of signatures of individuals authorized to approve disbursements.
- In 16 instances, facsimile and/or photocopied invoices were processed without sufficient documentation to clearly demonstrate such were sent by the vendor for billing purposes.
- In 13 instances, the business purpose for cash disbursements was not clearly indicated.
- In 17 instances, expenditures were processed without authorization for payment by PFC personnel.
- In six instances, the total amount of the checks written against an open purchase order exceeded the maximum authorized purchase order amount.
- In eight instances, the open purchase order did not list a maximum authorized purchase order amount.

- In three instances, checks were signed with rubber signature stamps.

Processing Exceptions

- In one instance, there was no one-up authorization for reimbursement of expenditures.
- In two instances, a list of attendees was not obtained as part of the supporting documentation.
- In two instances, payments were made to a credit card company without the supporting credit card statement.
- In nine instances, payments were made without sufficient supporting documentation, such as supporting receipts, invoices, or contracts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and properly authorized.

The PFC program director indicated that the lack of written policies and procedures contributed to the disbursement issues.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 95

We recommend that PFC develop policies and procedures to ensure cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The new PFC accountant has been directed to fully review all cash disbursements received from the operating units for appropriate documentation prior to processing. Written procedures will be developed by September 15, 2003.

INFORMATION TECHNOLOGY

PFC did not exercise appropriate oversight concerning its file level security and the frequency and disposition of file backups.

PFC was unaware if file level security had been provided over its data, which resides on a campus-supported server, or what procedures existed concerning file backups.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that adequate oversight be maintained over file security and backups.

The PFC program director indicated management had believed that campus procedures would be sufficient.

Failure to exercise appropriate oversight over file level security and backups may increase the risk of data loss and the risk of legal liability.

Recommendation 96

We recommend that PFC:

a. Establish written requirements for file security and backup and provide them to the campus department providing data processing services to PFC.

b. Ensure that only certain PFC individuals have read and update permissions to the files.

c. Define the required frequency of backup needed to support the organization, include provisions for remote storage of the backups, and specify a process for ongoing monitoring of such provisions.

Campus Response

We concur. PFC will work with appropriate campus personnel to develop and implement sound security, file backup, and access controls for our information systems. These controls should be operational by December 2003.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

AS had not executed an operating agreement with the CSU.

We found that AS engaged in activities which would require that an operating agreement be in place. Such activities included campus services, scholarships and stipends, and trusts.

Title 5 §42501 states, in part, that a written agreement is required for the auxiliary's performance of any functions listed in Title 5 §42500, except student body organization activities.

The AS president indicated management was unaware that student body organizations were required to execute an operating agreement.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 97

We recommend that AS execute a written operating agreement with the CSU, listing all approved functions, in accordance with CSU policy.

Campus Response

We concur. We are currently working with campus officials to draft a new operating agreement that is consistent with CSU policy. We expect this task to be complete by September 1, 2003.

DISSOLUTION OF AUXILIARY

The AS Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The AS president indicated that management oversight contributed to the non-compliant dissolution clause.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

Recommendation 98

We recommend that AS amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.

Campus Response

We concur. The AS amended its Articles of Incorporation in August 2002, and those amendments were ratified by the university president in October 2002.

WRITTEN AGREEMENTS

Written agreements had not been established between AS and the campus and other auxiliaries concerning certain activities.

We found that there were no written contracts defining the responsibilities shared with the campus and other auxiliaries regarding the Leadership Program, Campus Recreation Program, Multi Cultural Program, music copyright fees for the campus radio station, or certain payroll and benefit arrangements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by written agreements.

The AS president indicated that the lack of written agreements was due to management oversight.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 99

We recommend that AS establish written agreements with the campus and other auxiliaries defining respective responsibilities.

Campus Response

We concur. The AS is currently drafting MOUs with the appropriate partners. We expect to complete all agreements by December 23, 2003.

BOARD MINUTES

AS board of directors' meeting minutes were not signed and approved by an appropriate official.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates complete and accurate minutes signed by an appropriate official.

The campus student leadership advisor indicated that management did not properly stipulate this as a requirement.

Failure to maintain signed board of directors' meeting minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 100

We recommend that AS take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. AS officers were notified of the need for corporate minutes to be signed, and all minutes have been signed by the executive vice president since August 2002.

BYLAWS

The AS bylaws required revision and had not been filed with the Office of the Chancellor.

The bylaws required the campus president's approval of any changes to the bylaws or incorporated policies. However, there was no provision in the bylaws addressing the timeframe of the presidential approval. Additionally, the bylaws made reference to obsolete policies.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates current and adequate bylaws be maintained.

The AS president indicated management was aware of the need to revise the bylaws and had intended to address the above issues early in the semester. He further stated that the failure to file the bylaws with the Office of the Chancellor was due to management oversight.

Failure to maintain current bylaws increases the risk of misunderstandings regarding rights and responsibilities.

Recommendation 101

We recommend that AS revise its bylaws, addressing the timeframe of presidential approval and deleting references to obsolete policies, and file the revised bylaws with the Office of the Chancellor.

Campus Response

We concur. AS bylaws were amended consistent with this recommendation, and have been in effect since May 2003.

SALARIES AND BENEFITS

AS had not conducted and documented an analysis of full-time employee salaries, wages, and benefits between its employees and campus employees serving in similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The AS president indicated management was unaware that such a comparison was required and understood that the Association provided benefits for AS employees similar to those of the university.

Failure to fully document the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 102

We recommend that AS perform and document an analysis of all auxiliary and campus salaries, wages, and benefits.

Campus Response

We concur. We will work with the Association to document and analyze auxiliary and campus salaries, wages, and benefits. We expect that this process will be completed by December 23, 2003.

RESERVES

The AS reserve policy was inadequate.

Such a policy should address or consider the following areas:

- Minimum reserve requirements.
- The inclusion of reserves in the budget submitted to the campus president.
- Board review of reserve levels.
- Reserves for working capital and capital replacement.
- The methodology used for the calculation of reserves.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The AS president indicated that management was unaware of the deficiencies in the reserve policy and acknowledged that several conversations concerning the policy had occurred between AS, the Association, and the campus.

Insufficient reserve planning and analysis increase the auxiliary's risk to fund future needs.

Recommendation 103

We recommend that AS coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

We concur. The AS fiscal policy has been amended and adopted by the student senate, and approved by the university president.

EXPENDITURE AUTHORITY

AS did not comply with its bylaws concerning the authority to sign contracts.

Certain AS contracts were signed by the student leadership advisor, who had no contractual signing authority. Further, certain contracts signed by the AS president did not have secondary authorizing signatures, as required by the bylaws.

The AS bylaws state that contracts must be signed by the president or any vice president, and the secretary, any assistant secretary, or the chief financial officer.

The AS president indicated that non-compliance with the bylaws concerning contractual signing procedures was due to management oversight.

Failure to comply with bylaws and obtain proper review and approval of contractual agreements may result in unnecessary financial loss and unenforceable provisions.

Recommendation 104

We recommend that AS comply with its bylaws concerning the signing of contracts.

Campus Response

We concur. This issue was discussed during the bylaw revision process, and all parties are now aware of the requirements. In the future, the advisor and chief financial officer will ensure that contracts are properly authorized.

FEES, REVENUES, AND RECEIVABLES

The AS did not obtain and review the student body association fee allocation for accuracy.

The campus transferred student body association fee monies to AS twice per semester.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the accuracy of revenues be verified.

The AS president indicated management had previously requested supporting calculations from the Association accounting office, but had received none. The campus accounting services director stated that the calculations were maintained in the campus accounting office and were available upon request.

Failure to obtain and review the reconciliation of student body association fees increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 105

We recommend that AS obtain and review the student body association fee allocation for accuracy.

Campus Response

We concur. The campus will provide AS with a student fee reconciliation at the end of each semester. The first reconciliation, for the fall 2003 semester, will be provided to AS by December 31, 2003.

PURCHASING AND ACCOUNTS PAYABLE

Certain AS cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 60 cash disbursements disclosed the following:

Process Controls

- In 29 instances, the student leadership advisor did not sign off on the expenditure request, as required in the AS fiscal policy.
- In 25 instances, facsimile and/or photocopied invoices were processed without sufficient documentation to clearly demonstrate such were sent by the vendor for billing purposes.
- In 13 instances, the business purpose for cash disbursements was not clearly indicated. Further, AS had no procedures to ensure original receipts documenting appropriate business purposes were received for charges against certain open purchase orders.
- In eight instances, expenditures were processed without authorization for payment by AS personnel.
- In 17 instances, the date field on the expenditure request form was not completed.
- In seven instances, the contract evidencing an entertainment event did not sufficiently indemnify AS, the campus, or the CSU Trustees. Further, student clubs used AS letterhead to execute contracts with entertainers.

Processing Exceptions

- In three instances, the student or advisor signature on the expenditure request did not match that on the official signature card.
- In one instance, the club advisor also signed off on behalf of the student on the expenditure request.
- In one instance, there was no explanation documented explaining why the disbursement amount differed from the request amount.
- In 15 instances, payments were made without sufficient supporting documentation, such as supporting receipts, invoices, or contracts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and properly authorized.

The AS president indicated that the lack of sufficiently detailed disbursement procedures and lack of management oversight contributed to the above disbursement issues.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 106

We recommend that AS revise and appropriately distribute its policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. Purchasing and accounts payable procedures have been revised accordingly, and will be distributed to the appropriate individuals in September 2003.

AUXILIARY PROGRAMS

AS inadequately administered certain grants awarded to students.

We noted that:

- Policies and procedures had not been developed to ensure that disbursements for grants awarded by AS were issued only to students currently admitted to the campus. Our review indicated that AS grant payments were not made until the end of the spring semester related to grants awarded early in the previous fall semester. Although AS verified student eligibility status at the time of application, AS did not reconfirm student eligibility prior to issuing grant payments later in the year.

- AS did not verify the validity of the student and advisor signatures on grant applications or grant expenditure requests.

- AS did not report certain grants paid to students to the campus financial aid office.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students. A record of such financial assistance shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records kept in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under Section 42403, subdivision (b).

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be developed for the administration of grants.

The AS president indicated that management had believed the advisor's signature on the grant expenditure request was adequate assurance that the students remained currently enrolled. He further indicated that the lack of verification of student and advisor signatures and the failure to notify the financial aid office was due to management oversight.

Failure to ensure that students are currently admitted to the campus prior to the disbursement of scholarships increases the risk of non-compliance with state and CSU policy.

Recommendation 107

We recommend that AS:

a. Develop policies and procedures to ensure that grant payments are not awarded until after the eligibility of the recipient is known.

b. Verify student and advisor signatures on the accepted grant applications and compare the signatures on the applications to those on subsequent grant expenditure requests.

c. Report all grants paid to students to the campus financial aid office.

Campus Response

We concur. The grant program has temporarily been suspended pending the implementation of adequate internal controls. We anticipate that new policies and procedures will be adopted by December 23, 2003.

APPENDIX A:
PERSONNEL CONTACTED

Name	Title
CAMPUS	
John D. Welty	President
Connan D. Campbell	Student Leadership Advisor
Mike Dunn	Compensation Manager
Thomas Ebert	Associate Provost, Academic Affairs
Steve Katz	University Controller
Tom McClanahan	Associate Vice President, University Grants and Research
Carl Pherson	Agricultural Operations Director
Jeannine Raymond	Interim Chief Administrative Officer
Chris Robinson	Campus Internal Auditor
Kenneth Shipley	Associate Provost, Academic Resources
Peter N. Smits	Vice President, University Advancement
Robert Vega	Director, Accounting Services
Nora Woods	Assistant Human Resources Director
Patricia Work	Accounts Payable/Receivable Manager
CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION	
Alejandro Calderon-Urrea	Associate Professor, Developmental Biology
Sally Cardell	Accounting Assistant
Linda Christian	Grant Accounting Supervisor
Amy Clark	Grant Technician
Audrey Fay	Financial Accounting Supervisor
John Gee	Technician, Mechanical and Industrial Engineering
Jeff Higginbotham	Network Administrator, Central Valley Business Incubator
Randy Larson	Director, Foundation Financial Services
Diane Miniel	Administrative Assistant
Shelby Mirzaie	Grant Accountant
Gloria Razo	Junior Accountant
Jill Richards	Procurement Technician
Sheryl Root	Receptionist
Rebecca Rossol	Staff Accountant
Peter Smits	Executive Director
Penny Sweazy	Accounts Payable Clerk

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

Debbie S. Adishian-Astone	Executive Director
Daniel Bartell	Dean, School of Agriculture
Anita Bradel	Interim Director, Human Resources
James Casey	Faculty Advisor, Farm Market Enterprise Unit
Debbie Deiner	Cashier
Tamara Durant	Corporate Operations Manager/Interim Director, Food Service
Ron Durham	Director, Kennel Bookstore
Theresa Eurich	Director, Management Information Systems (MIS)
Karen Focarazzo	Catering Manager
Ken Fugelsang	Faculty Advisor, Winery Unit
Virgina Guerrero	Executive Assistant
Deborah Guill	Senior Manager, Residence Dining Facility
John Henson	Faculty Advisor, Meats Lab
Karen L. Johnson	Director, University Courtyard
Delia Jorge	Copy Center Manager
Carol Lillian	Accounting Supervisor, University Food Services
John M. Melikian	Staff Counsel
Gina Milks	Accounting Supervisor, University Courtyard
Diane Miniel	Executive Secretary
Randy Perry	Faculty Advisor, Beef Enterprise Units
Pete Prestegard	Chief Financial Officer
Cathy Pronovost	Payroll Administrator
Jon Robison	Faculty Advisor, Dairy Enterprise Units
Linda Sabbatini	Accounting Supervisor
Cathy Simpson	Administrative Manager, Kennel Bookstore
Trina Turula	Operations Manager, Bookstore
Linda Urrea	Administrative Assistant, University Student Union
Angela Valley	Office Assistant, University Courtyard
Leon Valley	Senior Manager, Concessions/Special Events
Sherri Williams	Business Accountant
Scott Williamson	Faculty Advisor, Swine Enterprise Unit
Humberto Yeverino	MIS Coordinator, Bookstore
Mehrzad Zarrin	Interim Director, University Student Union
Ron Zavala	Business Manager, University Food Service

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

Deborah S. Adishian-Astone	Executive Director
Daniel Avila	Dairy Industry Technician
Kevin Connor	Winery Technician
Dana Horton	Ornamental Horticulture Floral Technician
Thomas Merritt	Meats Lab Technician

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

Trisha Becker	Payroll Technician
Dana Deminna	Interim Ticket Manager
Deena Diboll	Assistant Athletic Director, Marketing and Sales
Richard Enns	Personal Seat License Coordinator, Save Mart Center
Betsy Garcia	Accounting Manager
Rose Green	Ticket Office Accountant
Jody Jesser	Travel Accountant
Scott Johnson	Athletic Director
Blaine Kelley	Store Manager
Jamie Mullins	Compliance Officer
Slyvia Muniz	Accounts Payable Technician
Pat Ogle	Executive Director, Bulldog Foundation
Chris Robinson	Interim Assistant Controller, Athletics
Diane Sanbongi	Assistant Ticket Manager
Amanda Stovall	Accounting Technician
Danielle Torres	Assistant Accounting Manager
Stephanie Wallace	Accounting Technician

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

Anna Munoz	Office Manager
Catherine F. Revilla-Mathis	Program Director
Katherine Reynaga	Office Manager
Kenneth Shipley	Executive Director

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

Amy Armstrong	Secretary
Ashley DeBenedetto	Vice President, Finance
Ryan Jacobsen	President
Jamie Mello	Executive Vice President
Roxana Moreno	Office Manager

SCOPE

INTERNAL COMPLIANCE SCOPE

As discussed in the body of our report, we evaluated each organization's compliance with the Education Code and Title 5 as related to the operation of CSU auxiliary organizations.

Within the scope of our review, we included the following internal compliance considerations, which were identified during our preliminary assessment of risks related to the CSU and its oversight of auxiliaries in determining whether:

- The auxiliary performed only those functions determined by the CSU Trustees to be appropriate for auxiliary organizations.
- The auxiliary performed only those functions authorized under a written agreement executed with the chancellor.
- The auxiliary board of directors established provisions in either the Articles of Incorporation or constitution stating that, upon dissolution, net assets other than trust funds will be distributed to a successor approved by the campus president (or designee) and the CSU Trustees.
- The auxiliary board of directors adopted a constitution and, if the auxiliary is not incorporated, has filed a copy of the constitution with the chancellor (or designee).
- All leasing of campus facilities by the auxiliary was effected under provisions of Education Code §89046 or other laws governing the leasing of state facilities and whether it appropriately paid rent on space in tax-supported buildings on campus utilized by federally sponsored projects, unless the projects were excluded from space reimbursement requirements.
- All contracts or other business arrangements involving real property were entered into with prior approval of the campus president (or designee) and prior notification and consultation with the CSU chancellor (or designee).
- The auxiliary board of directors met statutory requirements in size and composition.
- Statutory requirements applicable to public meetings were adhered to as applicable to the auxiliary.
- The auxiliary board of directors held business meetings at least once a quarter.

- The auxiliary was established by constitution, statute, bylaws, or resolution and whether there were provisions for election of officers and board members.
- Sufficient operating procedures had been established by the auxiliary to allow the campus president (or designee) to ascertain the propriety of all expenditures and the integrity of financial reporting and whether all expenditures were made in accordance with policies of the CSU Trustees.
- The auxiliary had all expenditures and fund appropriations approved by its board and whether it had fund appropriations for use outside of normal business operations of the auxiliary approved by an officer designated by the CSU Trustees.
- The auxiliary provided full-time employee salaries, working conditions, and benefits comparable to those provided by the CSU.
- The auxiliary operated commercial services on a self-supporting basis.
- The auxiliary submitted its programs and budgets for review in a timely manner as specified by the president (or designee).
- The auxiliary maintained a reasonable provision for reserves and used surplus funds from commercial operations for purposes consistent with regulations of the CSU Trustees.
- The auxiliary used indirect cost reimbursements in accordance with statutory requirements.
- The auxiliary gave loans, scholarships, stipends, and grants-in-aid to currently admitted students only.
- The auxiliary accepted grants, contracts, bequests, trusts, or gifts, to be used only for purposes consistent with the policies of the CSU Trustees.
- The auxiliary forwarded records of student financial assistance to the campus financial aid office on a timely basis.
- Expenditures for public relations or other purposes which would serve to augment state appropriations for operation of the campus were approved by the governing body of the auxiliary organization and that this policy was filed with the chancellor (or designee).
- The auxiliary had taken measures to protect the campus from all possible liability associated with the operation of commercial services.
- The auxiliary obtained indemnity bonds for officers and employees handling funds as statutorily mandated.

- Conflict-of-interest statutes and regulations had been complied with, including, but not limited to, the prohibition of financial conflicts of interest or personal pecuniary gains in transactions with governing board members.

- The auxiliary adopted a non-discrimination and affirmative action in employment policy approved by the chancellor (or designee).

- The student body organization auxiliary deposited in trust with the chief financial officer of the campus all student body organization fees or other funds and money under the programmatic control of the student body organizations, except for those collected from and used in or for major commercial services and agency funds.

- The student body organization auxiliary sufficiently enabled the chief fiscal officer of the campus to comply with legislative mandates by recommending the most appropriate institution or medium for investment of unexpended funds.

- The student body organization auxiliary submitted appropriate claim schedules to the chief fiscal officer of the campus after review and approval by an officer of the student body organization.

INTERNAL CONTROL SCOPE

As to the scope of our internal control review, our focus was on the separation of duties, safeguarding of assets, and reliability and integrity of information. The areas included were identified through a preliminary survey and risk assessment of the operation of each auxiliary on the campus. Risks were defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

We generally considered that duties were adequately segregated when no individual performed more than one of the following duties: (1) receiving and depositing remittances; (2) authorizing disbursements; (3) preparing checks; (4) operating a check-signing machine; (5) comparing signed checks with authorizations and supporting documents; (6) reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions; and (7) initiating or preparing invoices.

Within our general internal control focus, we considered and reviewed, as deemed appropriate based upon our assessment of risk, the following:

- Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.

- Establishment of receivables and adequate segregation of duties regarding billing for and payment of receivables.

- Approval of purchases, receiving procedures, and reconciliation of expenditures to general ledger balances.

- Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- Authorization of personnel/payroll transactions.
- Posting of the property ledger, regular reconciliation of the property to the general ledger, and physical inventories.
- Access restrictions to automated accounting systems and proper documentation of the systems.
- Procedures for initiating, overseeing, and accounting for investments.
- Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

As discussed, the areas actually included within the scope of our review were identified through a preliminary survey and risk assessment of each auxiliary's operation. They were included within the scope of our review because they were deemed to address the risks associated with each auxiliary's operation on the campus. Risk was defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the state of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the university auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.

CALIFORNIA STATE UNIVERSITY, FRESNO

RECEIVED
UNIVERSITY AUDITOR
AUG - 6 2003
THE CALIFORNIA STATE UNIVERSITY

July 31, 2003

Memorandum

To: Larry Mandel
University Auditor
The California State University

From: John D. Welty
President

Subject: **Campus Response to Audit Report Number 02-49, *Auxiliary Organizations* at California State University, Fresno**

My staff and I have reviewed the findings of the above captioned audit report. Enclosed is the Campus Response addressing specific recommendations contained in the report.

Please feel free to contact me if you should have any questions.

JDW:cr
Enclosure

C: Dr. Peter Smits
Mr. Steve Katz
Mr. Randy Larson
Mr. Pete Prestegard
Mr. Chris Robinson
Dr. Carl Pherson
Dr. Ken Shipley
Ms. Debbie Astone
Mr. Connan Campbell
Mr. Scott Johnson

Office of
the President

Thomas Administration
Building, 103
5241 North Maple Ave. M/S TA48
Fresno, CA 93740-8027

559.278.2324
Fax 559.278.4715

AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, FRESNO

CAMPUS RESPONSE TO THE RECOMMENDATIONS OUTLINED IN AUDIT REPORT NO. 02-49

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

SUPPORT ORGANIZATIONS

Recommendation 1

We recommend that the campus develop a procedure to identify and a strategy to coordinate and oversee the various ancillary organizations that operate on the campus in support of academic and non-academic programs.

Campus Response

We concur. The campus will develop a procedure to identify and a strategy to coordinate and oversee the various ancillary organizations operating on campus. This project should be completed by December 2003.

ACCEPTANCE OF FUNDS

Recommendation 2

We recommend that the campus develop written policies and procedures applicable to its auxiliary organizations to ensure that they accept only those funds whose purposes are consistent with CSU policy.

Campus Response

We concur. The campus will develop policies and procedures for auxiliary organization acceptance of funds. These procedures will be implemented by December 31, 2003.

PUBLIC RELATIONS POLICY

Recommendation 3

We recommend that the campus establish a public relations policy applicable to its auxiliary organizations and maintain this policy on file with the Office of the Chancellor.

Campus Response

We concur. The campus will coordinate with the auxiliary organizations to develop a public relations policy of the campus community. This policy will be implemented by December 2003.

COURSE MATERIALS

Recommendation 4

We recommend that the campus develop written policies and procedures to address the sale of faculty-developed course materials.

Campus Response

We concur. A University policy regarding the sale of faculty-developed course materials will be developed by December 2003.

PERSONNEL AGREEMENTS

Recommendation 5

We recommend that the campus establish written agreements which clearly define the terms and conditions for the assignment of state employees by auxiliary organizations.

Campus Response

We concur. Memorandums of Understanding will be developed to document the terms and conditions of state employee assignments in the auxiliary organizations. These memorandums will be completed by December 31, 2003.

LAND SALE

Recommendation 6

We recommend that the campus seek authoritative guidance from the chancellor's office as to its handling and distribution of the proceeds from the sale of state land.

Campus Response

We concur with the recommendation. Our campus will submit, by September 15, 2003, information about how the transaction was internally processed to ensure that the Chancellor's Office agrees with how we have handled the transaction or seek an agreeable alternative.

TRUSTS AND OTHER LIABILITIES

Recommendation 7

We recommend that the campus increase its oversight of auxiliary management, specifically in the area of funds held in trust accounts.

Campus Response

We concur. The campus will take steps to increase its oversight of auxiliary management, specifically with regards to funds held by the auxiliary organizations in trust. This matter will be addressed by December 2003.

AUXILIARY PROGRAMS

Recommendation 8

We recommend that the campus document its delegations of authority for approval of sponsored program agreements and further document its contracts and grants policies and procedures.

Campus Response

We concur. The campus will document its delegations of authority for approval of sponsored program agreements. We will also develop policies and procedures which address the issues of budget preparation, location and maintenance of technical and financial reports, and conflict of interest disclosures for principal investigators. These tasks will be completed by December 31, 2003.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

ELECTION OF OFFICERS

Recommendation 9

We recommend that the Foundation take appropriate measures to ensure that all officer positions are filled in accordance with its bylaws and that such is properly reflected in the board minutes.

Campus Response

We concur. Election of officers was subsequently approved at the August 2002 meeting and the recording secretary has noted this requirement and placed it on the standard first quarter meeting agenda.

PUBLIC MEETINGS

Recommendation 10

We recommend that the Foundation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Public notices are now posted in the Foundation building and University Student Union in addition to the Foundation's web site.

BOARD MINUTES

Recommendation 11

We recommend that the Foundation take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. Minutes have subsequently been signed and the recording secretary has noted requirements for future archiving.

RESERVES

Recommendation 12

We recommend that the Foundation take appropriate measures to ensure that its reserve plan for working capital:

a. Excludes non-liquid assets in its analysis.

b. Allows for proper restriction of funds in its accounting records.

Campus Response

We concur. The Foundation will modify its working capital reserve requirement for the June, 2003 annual report to include only liquid assets and allow for proper restriction in its accounting records. Additional disclosure information will be added to the annual report.

RISK MANAGEMENT

Recommendation 13

We recommend that the Foundation maintain appropriate crime insurance coverage.

Campus Response

We concur. The Foundation has added appropriate crime insurance coverage for 2003-2004

CASH RECEIPTS AND HANDLING

Recommendation 14

We recommend that the Foundation:

a. Ensure that all checks are restrictively endorsed immediately upon receipt.
b. Maintain a log of checks received for each business day as appropriate.

Campus Response

We concur.

a. The Foundation has provided restrictive endorsement stamps to campus departments. The Foundation restrictively endorses all incoming checks at the reception desk upon receipt.
b. The Foundation has modified its cash receipt procedures and now logs checks received daily, as appropriate.

INVESTMENTS

Recommendation 15

We recommend that the Foundation coordinate with the campus to strengthen policies and procedures to ensure that all endowments are appropriately documented to meet the intent of the donor.

Campus Response

We concur. The Foundation and the Development Office will develop and implement a plan for donor and gift stewardship by December 15, 2003. Quarterly stewardship reports will be provided to senior management.

FEES, REVENUES, AND RECEIVABLES

Recommendation 16

We recommend that the Foundation take appropriate measures to ensure the timely clearance of travel advances.

Campus Response

We concur. The Foundation maintains a log of travel advances. Procedures have subsequently been modified. Notices are sent to individuals that do not clear advances on a timely basis. The supervisor reviews the travel advance log monthly for additional follow up as necessary.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 17

We recommend that the Foundation strengthen policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The Foundation will modify its policies and procedures by November 15, 2003.

AUXILIARY PROGRAMS

SUB-RECIPIENT MONITORING

Recommendation 18

We recommend that the Foundation develop written policies and procedures for sponsored program sub-recipient monitoring.

Campus Response

We concur. The Foundation has completed a draft policy on sub-recipient monitoring for circulation. The policy will be finalized and implemented by October 15, 2003.

PROJECT FILES

Recommendation 19

We recommend that the Foundation:

a. Maintain sponsored program proposals in project files.

b. Maintain evidence to document that interim status and/or final technical reports were submitted to the funding agency.

c. Document the justification and approval of below-cost reimbursements on contracts and grants.

Campus Response

We concur.

a. Procedures have been modified. The Foundation requests proposals prior to account set up. If a proposal was not submitted, a memo is placed in the account file.
b. The Foundation will implement a policies and procedures to comply with this recommendation by November 15, 2003.
c. The University Grants & Research Office (UGRO) has implemented an Indirect Cost Reduction Approval (ICRA) procedure and form. The ICRA form is attached to the Project Information Form on new proposals.

FEDERAL EQUIPMENT

Recommendation 20

We recommend that the Foundation develop procedures to ensure that:

a. Equipment purchased with federal project funds are appropriately tagged.
b. The Foundation is consistently notified when federal equipment is moved.

Campus Response

We concur.

a. Previously, the Principal Investigators were required to tag the equipment. The Foundation's procedures have subsequently been modified. Foundation staff now tags all Federal equipment.
b. The Foundation has reviewed the list and sent out notices to all Principal Investigators for updating. The Foundation will also perform a physical inventory for equipment by November 15, 2003.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 21

We recommend that the CSU and the Association update its operating agreement to specify all functions managed, administered, and operated by the auxiliary.

Campus Response

We concur. A general Operating Agreement between the Association and the Trustees/University has been submitted to the Office of General Counsel for review. Term will be consistent with outstanding bond issuances.

LEASE AND OPERATING AGREEMENTS

Recommendation 22

We recommend that the Association take appropriate measures to ensure that lease and operating agreements between the campus and the Association reflect current requirements and be executed in a timely manner.

Campus Response

We concur. Procedures have been established to ensure timely execution of lease and operating agreements.

GROUND LEASE

Recommendation 23

We recommend that the campus and the Association establish lease agreements (separate from the operating agreement) that clearly articulate the consideration exchanged and fully describe the facilities leased.

Campus Response

We concur. Future ground leases will incorporate additional language and provisions for consideration.

PUBLIC MEETINGS

Recommendation 24

We recommend that the Association post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Meeting Notices and Agendas are now being posted in the University Student Union.

SALARIES AND BENEFITS

Recommendation 25

We recommend that the Association perform and document an analysis of all auxiliary and comparable campus salaries, wages, and benefits.

Campus Response

We concur. A comparative analysis will be completed by December 2003.

SELF-SUFFICIENCY

Recommendation 26

We recommend that the Association develop a formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures, and that appropriate reserves are maintained.

Campus Response

We concur. A written surplus funds/reserves policy will be developed by December 2003.

EDUCATIONAL SUPPORT

Recommendation 27

We recommend that the Association, in conjunction with the AS and the campus, establish an appropriate means of paying stipends to AS officers.

Campus Response

We concur. Appropriate payroll procedures have been implemented.

PROGRAMS

Recommendation 28

We recommend that the Association:

a. Continue evaluating its plan to dispose of the biomass energy production facility.

b. In the future, engage only in those activities specifically identified in its operating agreement with the campus and the CSU.

c. Establish procedures which ensure that proper and timely due diligence (i.e., appraisal reports, environmental impact studies, board analysis, etc.) are performed.

d. Take appropriate measures to ensure that proper insurance coverage is obtained in a timely manner.

e. Establish a cash management process which includes appropriate consideration for facility costs and is properly reviewed by management.

f. Seek additional authoritative guidance with respect to the accounting treatment for the acquisition of, and investment in, the biomass energy production facility and amend records and financial reports accordingly.

Campus Response

We concur. The Association has divested itself of all interests in the biomass energy production facility and the sale was completed in June 2003. The Gift Acceptance Policy will be modified by December 2003 to ensure the Association does not accept gifts that are not in keeping with those authorized auxiliary functions enumerated in the California Code of Regulations Section 42500.

ADMINISTRATIVE SERVICE AGREEMENTS

Recommendation 29

We recommend that the Association take appropriate measures to ensure that administrative service agreements are appropriately executed and retained.

Campus Response

We concur. For fiscal years 2002-03 and 2003-04, all Management Services Agreements were executed in a timely manner.

SEGREGATION OF DUTIES

Recommendation 30

We recommend that the Association properly segregate certain accounting functions for cash receipts, cash disbursements, investments, and payroll and human resources or institute mitigating procedures approved by the campus.

Campus Response

We concur. The Association will continue to strive for proper segregation of accounting functions, both centrally and within each operating unit. The Association will diagram and review accounting functions with the University's Chief Financial Officer by December 2003 to ensure proper segregation of duties.

CASH RECEIPTS AND HANDLING

CASH RECEIPTS

Recommendation 31

We recommend that the Association:

a. Take appropriate measures to establish proper accountability over cash receipts and ensure transfer accountability is established by preparing prelistings for cash and negotiable instruments when appropriate.

b. Establish accountability for collections through the use of controlled, prenumbered receipts.

c. Implement cash countdown procedures at the bookstore.

d. Appropriately safeguard cash receipts prior to deposit.

Campus Response

We concur. Procedures have been implemented to ensure transfer accountability. Also, the Association is utilizing pre-numbered receipts in all locations and all cash receipts are stored in the vault prior to deposit.

TEXTBOOK BUYBACK VOUCHERS

Recommendation 32

We recommend that the Association take appropriate measures to properly control vouchers issued for the textbook buyback program.

Campus Response

We concur. As of December 2002, the Bookstore now utilizes vouchers that are impressed with a seal at the time of issuance in order to validate them for redemption.

PETTY CASH AND CHANGE FUNDS

Recommendation 33

We recommend that the Association:

a. In coordination with the campus, evaluate its current bookstore cash office security controls.

b. Restrict access to the Association cashier's office to only those persons performing the cashiering function.

c. Establish and implement procedures requiring the performance and documentation of timely independent cash counts of all Association petty cash and change funds.

Campus Response

We concur. The Bookstore will continue to evaluate cash office security controls. Access to the Association's cashier's office has been restricted. Petty cash and change fund procedures will be developed by December 2003. Audits of all petty cash and change funds will be conducted and documented on a quarterly basis.

FEES, REVENUES, AND RECEIVABLES

Recommendation 34

We recommend that the Association:

a. Document policies and procedures for the handling of write-offs, uncollectible accounts receivable, and assessing allowance for doubtful accounts.

b. Take appropriate measures to ensure that delinquent accounts receivable are accounted for in accordance with Generally Accepted Accounting Principles (GAAP).

c. Take appropriate measures to improve university courtyard accounts receivable collection efforts.

Campus Response

We concur. The Association has implemented an approved, written Accounts Receivable Collection Policy. An allowance for bad debt was established for Housing and Food Services in June 2001.

PURCHASING AND ACCOUNTS PAYABLE

CHECK PROCESSING

Recommendation 35

We recommend that the Association establish alternative procedures to using a rubber signature stamp and restrict access to blank check stock to only appropriate personnel.

Campus Response

We concur. The Association has discontinued use of the Chief Financial Officer's signature stamp and check stock has been secured for access by appropriate personnel only.

SUPPORTING DOCUMENTATION

Recommendation 36

We recommend that the Association develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The Association has implemented a process that includes additional review of all cash disbursements received from the operating units prior to processing.

UNCLAIMED MONIES

Recommendation 37

We recommend that the Association, in conjunction with the campus, develop operating procedures that implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

We concur. The Association will develop and implement policies and procedures by December 2003.

PERSONNEL AND PAYROLL

EMPLOYEE SEPARATION

Recommendation 38

We recommend that the Association strengthen procedures to ensure that clearance forms are documented and completed for all separating employees and that separated employees are removed from the payroll system, or marked as inactive, on a timely basis.

Campus Response

We concur. Procedures have been implemented to remove all inactive employees and to ensure timely notification from the operating units of any employee separation.

TRANSFER ACCOUNTABILITY

Recommendation 39

We recommend that the Association take appropriate measures to establish proper transfer accountability over payroll checks.

Campus Response

We concur. A procedure has been implemented to ensure proper transfer accountability of payroll checks.

FIXED ASSETS

Recommendation 40

We recommend that the Association:

a. Develop written policies and procedures over fixed asset management.

b. Tag or otherwise control fixed assets.

c. Conduct physical inventories of fixed assets.

d. Require appropriate documentation to support fixed asset additions and deletions of inventory, off-site use of equipment, and property sales and dispositions.

Campus Response

We concur. The Association will develop written policies and procedures for management of fixed assets by December 2003.

INFORMATION TECHNOLOGY

PHYSICAL AND ENVIRONMENTAL CONTROLS

Recommendation 41

We recommend that the Association evaluate appropriate physical and environmental controls to safeguard equipment and reduce the risk of fire or other environmental hazards.

Campus Response

We concur. The Association will perform an evaluation by December 2003.

ACCOUNTING SYSTEM ACCESS

Recommendation 42

We recommend that the Association properly segregate accounting system duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. The Association will determine necessary modifications to the accounting system general ledger access and procedures in order to properly segregate accounting duties. The Association will obtain an estimated cost and timeframe for implementation of modifications by December 2003.

POINT-OF-SALE SYSTEM ACCESS

Recommendation 43

We recommend that the Association issue each point-of-sale user a unique user ID that can only be used with a user-defined confidential password.

Campus Response

We concur. The Bookstore's point-of-sale system (MBS) has been modified in order to assign a unique password to each cashier/user.

BOOKSTORE ACCOUNTING SYSTEM ACCESS

Recommendation 44

We recommend that the Association review its current user profiles for the bookstore accounting system to ensure that user access levels are appropriate.

Campus Response

We concur. User profiles have been modified to ensure access levels are appropriate

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE

PUBLIC MEETINGS

Recommendation 45

We recommend that the Ag Foundation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Meeting notices and agendas are now being posted in the University Student Union.

SALARIES AND BENEFITS

Recommendation 46

We recommend that the Ag Foundation perform and document an analysis of all auxiliary and related campus salaries, wages, and benefits.

Campus Response

We concur. The Association's Human Resources department will complete an analysis by December 2003.

AGRICULTURAL OPERATIONS

Recommendation 47

We recommend that the Ag Foundation develop a strategy for implementation of a self-sufficiency plan that demonstrates the financial/operational differences between educational and commercial operations.

Campus Response

We concur. As a means that demonstrates self-sufficiency, the Ag Foundation will work with the University's Chief Financial Officer to develop a plan that demonstrates significant in-kind support to the University's academic programs. The plan will be developed by December 2003.

INDEMNITY BONDS

Recommendation 48

We recommend that the Ag Foundation provide evidence of indemnity bonds or similar protection.

Campus Response

We concur. Crime coverage for Ag Foundation employees is in place for 2003-04.

PROGRAMS

Recommendation 49

We recommend that the Ag Foundation document compliance requirements within written manuals for all enterprise units.

Campus Response

We concur. The Ag Foundation will submit documented compliance information by December 2003. In addition, the Campus is awaiting a list of non-compliance areas from the CSU Auditor.

CASH RECEIPTS AND HANDLING

Recommendation 50

We recommend that the Ag Foundation:

a. Develop written cash-handling policies and procedures.

b. Ensure that undeposited cash receipts are adequately safeguarded.

c. Ensure that accountability is localized whenever two or more persons have access to the same cash drawer.

d. Require cash closeout reports be signed by both the preparer and the observer.

e. Ensure that cash used for operations, petty cash, and gift certificates are separately identified and accounted for.

f. Ensure that operating cash is reconciled on a regular basis with differences properly identified and accounted for.

Campus Response

We concur. Written cash-handling policies and procedures will be developed and implemented for the Ag Foundation by December 2003.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Recommendation 51

We recommend that the Ag Foundation take appropriate measures to ensure the timely collection of long-outstanding accounts receivable.

Campus Response

We concur. Procedures have been implemented to ensure timely collection of outstanding accounts receivable.

UNRELATED BUSINESS INCOME

Recommendation 52

We recommend that the Ag Foundation analyze its operations for UBI and appropriately account for and track it.

Campus Response

We concur. The Ag Foundation will conduct an analysis of its operations for UBI exposure, and will appropriately account for and track UBI.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 53

We recommend that the Ag Foundation:

a. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.

b. Develop and implement written purchasing policies and procedures.

c. Develop a formal verification process for expenditures not supported by original documentation.

Campus Response

We concur. The Ag Foundation will develop and implement written policies and procedures by December 2003.

FIXED ASSETS

Recommendation 54

We recommend that the Ag Foundation:

a. Develop and implement policies and procedures for the management and administration of fixed assets.

b. Ensure that all fixed assets are tagged and properly and clearly identified in the fixed asset subsidiary records.

c. Ensure that proceeds from the sale of fixed assets are deposited to the proper entity.

d. Ensure that all fixed assets are properly valued and recorded to the general ledger.

Campus Response

We concur. The Ag Foundation will develop written policies and procedures for management of fixed assets by December 2003.

INVENTORIES

Recommendation 55

We recommend that the Ag Foundation:

a. Develop and implement policies and procedures for the management and administration of inventory.

b. Ensure sufficient and independent verification of inventory counts performed at the farm market.

c. Ensure that unsold inventory is properly accounted for.

d. Perform a complete inventory on a regular and periodic basis during the year.

Campus Response

We concur. The Ag Foundation will develop written policies and procedures for management and administration of inventory by December 2003.

INFORMATION TECHNOLOGY

Recommendation 56

We recommend that the Ag Foundation winery enterprise unit exercise appropriate oversight over its file level security and the frequency and disposition of file backups.

Campus Response

We concur. The Winery enterprise manager will work with the campus information technology department to develop written procedures for file security and backup by December 2003.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY FUNCTIONS

Recommendation 57

We recommend that the Athletic Corporation perform only those functions listed in Title 5 or seek approval for variances from the Office of the Chancellor.

Campus Response

We concur. We will seek approval for a variance from the Chancellor's Office by October 15, 2003.

LEASE AND OPERATING AGREEMENTS

Recommendation 58

We recommend that the Athletic Corporation take appropriate measures to ensure that lease and operating agreements between the campus, the CSU, and the Association reflect current requirements and be executed in a timely manner.

Campus Response

We concur. In 2002, the Vice President for Administration assigned a campus employee to monitor the status of all auxiliary operating agreements and leases. This step should help us to ensure that operating agreements and lease stay current.

The Athletic Corporation operating agreement with the trustees was recently executed, and does reflect current requirements, including retail services performed by the Bulldog Shop. The corporation is currently working to complete its facilities master lease agreement which is expected to be executed by December 2003.

PUBLIC MEETINGS

Recommendation 59

We recommend that the Athletic Corporation post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. In the future, board of director and committee meeting notices will be posted in the University Student Union.

MEETING QUORUM

Recommendation 60

We recommend that the Athletic Corporation take appropriate measures to ensure that business is not transacted at future board meetings unless a quorum, as defined in the corporate bylaws, is present.

Campus Response

We concur. It has been clarified that a quorum is defined as more than 50% of the voting board members.

BUDGET

Recommendation 61

We recommend that the Athletic Corporation:

a. Coordinate with the campus to take appropriate measures to ensure that budget information is submitted to the campus president for approval in a timely manner.

b. Enhance budget documentation by including narrative assumptions, details regarding all revenue sources, and comparisons to prior year's forecast.

c. Implement a procedure requiring the board of directors to review budget to actual results on an ongoing basis.

Campus Response

We concur. The following actions are being taken:

a. The corporation board of directors and audit committee will continue to schedule meetings in early to mid May of each year for the main purpose of finalizing the following year budget. Once approved by the Board, the budget is submitted to the University President for approval.

b. The corporation will evaluate disclosures contained in the budget consistent with the recommendation, and will upgrade budget disclosures as deemed appropriate for the 2004-05 fiscal year. The evaluation of disclosures will be completed by December 2003.

c. In the summer of 2002 the board established an audit committee. In its charter, the audit committee was assigned the responsibility for monitoring quarterly budget versus actual results, and then reporting to the board on those results. This process was operational and effective during the 2002-03 fiscal year.

RESERVES

Recommendation 62

We recommend that the Athletic Corporation coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

We concur. We will develop and implement a written surplus funds/reserve policy by December 2003.

CONFLICT OF INTEREST

Recommendation 63

We recommend that the Athletic Corporation, in coordination with the campus, develop a formal conflict-of-interest policy.

Campus Response

We concur. The board adopted a written conflict of interest policy in the fall of 2002.

SEGREGATION OF DUTIES

Recommendation 64

We recommend that the Athletic Corporation properly segregate certain accounting functions for accounts receivable, accounts payable, and personnel and payroll or institute mitigating procedures approved by the campus.

Campus Response

We concur. Athletics will evaluate staff assignments and properly segregate accounting functions by October 15, 2003.

CASH RECEIPTS AND HANDLING

CASH RECEIPTS

Recommendation 65

We recommend that the Athletic Corporation:

a. Prepare a log or prelisting of all checks received to be maintained by the employee that opens the mail.

b. Ensure that all checks are restrictively endorsed immediately upon receipt.

c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort.

d. Ensure undeposited funds are adequately safeguarded.

e. Establish local accountability at the ticket office with respect to access to the cashiering system.

f. Ensure that deposits are forwarded in a timely manner from the ticket office to the business office for deposit.

Campus Response

We concur. The following actions are being taken:

a. The athletics business office employee that opens incoming mail now maintains a log of all incoming checks.

b. Athletics is restrictively endorsing checks received in all departments as soon as they are received.

c. Athletics will evaluate its options relative to the transportation of deposits from outlying areas by October 15, 2003.

d. Undeposited funds in the ticket office, Bulldog Shop and business office are now kept in safes until ready for deposit.

e. Personal access codes have been assigned to all ticket office employees.

f. The ticket office has been instructed to make timely transfers of funds to the business office.

EVENT TICKETS

Recommendation 66

We recommend that the Athletic Corporation:

a. Maintain a log to control and account for the use of blank ticket stock.

b. Perform a monthly reconciliation of ticket sales to cash receipts.

c. Numerically or sequentially control or otherwise account for all tickets generated.

d. Record complimentary tickets and trade-out transactions to the general ledger.

e. Develop and implement appropriate policies and procedures for the trade-out process, which address, among other things, the process for requesting, processing, and approving trade-outs, accountability for tickets issued, policy for assessing/documenting the value of services received, and tax and regulatory considerations with regards to such trade-out transactions.

Campus Response

We concur. We will take the following actions:

a. We will maintain a log to control and account for the use of blank ticket stock. The log will be in place by August 31, 2003.

b. While we agree that a periodic reconciliation should be performed, we need to determine if a monthly or seasonal reconciliation is more appropriate and feasible. We will make this determination and implement a periodic reconciliation process by December 2003.

c. We will ensure that all ticket stock is numerically or sequentially controlled for all tickets generated by September 30, 2003.

d. The ticket office will develop a system for informing the business office of trade-out activity as it is posted to the ticketing system so that appropriate postings can be made to the general ledger. This process will be operational by November 30, 2003.

e. We will develop trade-out processes consistent with the recommendation, and will implement these procedures by November 30, 2003.

TICKET OFFICE SECURITY

Recommendation 67

We recommend that the Athletic Corporation analyze the cost benefit of improving security at the ticket office.

Campus Response

We concur. We will analyze the cost benefit of improving ticket office security. This study will be completed by December 2003.

PETTY CASH AND CHANGE FUNDS

Recommendation 68

We recommend that the Athletic Corporation develop and implement change fund procedures which require periodic and independent, unannounced cash counts.

Campus Response

We concur. We will develop and implement change fund procedures calling for periodic and independent, unannounced cash counts. These procedures will be implemented by October 31, 2003.

INVESTMENTS

Recommendation 69

We recommend that the Athletic Corporation enhance its investment policies and procedures to provide further guidance over the management and administration of investments. Such policies and procedures should be subject to the review and approval of the Athletic Corporation's board of directors.

Campus Response

We concur. We will amend the investment policy and related procedures, and drafts of these policy and procedure revisions will be presented to the board for review prior to December 31, 2003.

FEES, REVENUES, AND RECEIVABLES

Recommendation 70

We recommend that the Athletic Corporation:

a. Document and implement policies and procedures to ensure the timely collection/follow-up of outstanding receivables and the proper handling of write-offs and uncollectible accounts.

b. Centralize the accounts receivable function to improve controls over invoicing, remittance of payments, and collection/follow-up.

Campus Response

We concur. We will develop and implement policies and procedures that will ensure the timely collection/follow-up of accounts receivable and the proper handling of write-offs and uncollectible accounts. We will also centralize the accounts receivable function within the business office. These changes will be completed by December 2003.

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT PROCESS

Recommendation 71

We recommend that the Athletic Corporation fully develop written procurement policies and procedures regarding purchasing and receiving functions and responsibilities.

Campus Response

We concur. Appropriate procurement policies and procedures will be developed and submitted to the audit committee for review by December 2003.

SUPPORTING DOCUMENTATION

Recommendation 72

We recommend that the Athletic Corporation develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. Steps have already been taken to address many of the deficiencies noted. However, the need for clear and concise procedures governing expenditure documentation and approval is acknowledged. Such procedures will be presented to the audit committee by December 2003.

RAFFLE

Recommendation 73

We recommend that the Athletic Corporation refrain from participation in any unauthorized raffles.

Campus Response

We concur. We will not conduct unauthorized raffles, and we will notify all support groups of the provisions of Penal Code section 320.5.

BANK RECONCILIATIONS

Recommendation 74

We recommend that the Athletic Corporation:

a. Ensure that bank reconciliations are prepared and reviewed in a timely manner and signed and dated by the preparer and the reviewer.

b. Properly identify and clear all unreconcilable differences and adjusting items in a timely manner.

Campus Response

We concur. The business office is current in all its bank reconciliations, and will continue to complete monthly reconciliations no later than 30 days after each month-end. In addition, irreconcilable differences will be cleared in a timely fashion.

UNCLAIMED MONIES

Recommendation 75

We recommend that the Athletic Corporation, in conjunction with the campus, develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

We concur. The Athletic Corporation will work with the University controller to develop and implement policies and procedures for handling unclaimed monies. These procedures will be implemented by December 2003.

PERSONNEL AND PAYROLL

TIME REPORTING

Recommendation 76

We recommend that the Athletic Corporation ensure that timecard information/payroll reports are reviewed and/or approved by supervisors.

Campus Response

We concur. The assistant controller for athletics reviews and approves all expenditures, and now ensures that supervisors approve all timecard information/payroll reports.

PAYROLL DATABASE

Recommendation 77

We recommend that the Athletic Corporation:

a. Review the payroll database to purge or deactivate those employees no longer active.

b. Develop and implement procedures for timely notification to payroll of part-time and temporary employees no longer being utilized.

Campus Response

We concur. We have already deactivated all employees who have not received a paycheck in two years. We will continue this process on a periodic basis. In addition, the business office will submit periodic reports on part-time employees to the ticket office, the Bulldog Shop and facilities maintenance. These offices will then be able to indicate which employees in the payroll system should be deactivated. The first such report will be distributed by October 31, 2003.

FIXED ASSETS

Recommendation 78

We recommend that the Athletic Corporation:

a. Develop and implement policies and procedures for the management and administration of fixed assets.

b. Perform a complete physical inventory of fixed assets and reconcile the results to the fixed asset and general ledgers.

c. Establish appropriate guidelines for the tagging of fixed assets.

d. Establish a process for entering fixed asset tag numbers into the fixed asset database maintained by the business office.

Campus Response

We concur. Athletics will develop and implement a complete fixed asset management system consistent with the recommendation. The new policies and procedures will be in effect by December 2003.

INVENTORIES

Recommendation 79

We recommend that the Athletic Corporation ensure that all consignment arrangements are fully supported by written agreements.

Campus Response

We concur. We will execute agreements relative to all consignment arrangements by December 2003.

INFORMATION TECHNOLOGY

USER ACCESS

Recommendation 80

We recommend that the Athletic Corporation review its accounting system user profiles to ensure the appropriate segregation of duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. We will conduct an analysis of system user profiles in order to limit user access where necessary in order to provide an adequate separation of duties/functions. This process will be completed by November 30, 2003.

INFORMATION TECHNOLOGY SUPPORT

Recommendation 81

We recommend that the Athletic Corporation take appropriate measures to establish consistent ongoing support for data processing operations that address the concerns outlined above to ensure efficient and effective use of computer resources.

Campus Response

We concur. Athletics is currently in the process of hiring a full-time network analyst. This position will be able to address all of the concerns outlined in the finding. This position should be filled by September 30, 2003.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 82

We recommend that the CSU and PFC update its operating agreement to specify all functions operated by the auxiliary organization.

Campus Response

We concur with the finding. However, the existing operating agreement between the Fresno State Programs for Children, Inc. (PFC) and the Trustees of the California State University currently reflects the sum of activities in which PFC engages, as PFC no longer engages in extraneous activities.

WRITTEN AGREEMENTS

Recommendation 83

We recommend that PFC sufficiently articulate the use of state resources in a written agreement with the campus.

Campus Response

We concur. We will work with campus officials and the Association's in-house legal counsel to develop appropriate agreements by December, 2003.

PUBLIC MEETINGS

Recommendation 84

We recommend that PFC post its board of directors' and committee meeting notices in a public area in accordance with the Education Code.

Campus Response

We concur. Since December 2, 2002, meeting notices have been posted on a bulletin board at each of the four childcare centers.

BOARD MINUTES

Recommendation 85

We recommend that PFC take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. Board minutes have been signed by the appropriate official since September 9, 2002.

SALARIES AND BENEFITS

Recommendation 86

We recommend that PFC perform and document an analysis of all auxiliary and campus salaries, wages, and benefits.

Campus Response

We concur. A comparative analysis will be completed by the Association's Human Resources Department by December 2003.

BUDGET

Recommendation 87

We recommend that PFC take appropriate measures to ensure that budgets are prepared in a timely manner and approval documentation is properly retained.

Campus Response

We concur and have resolved this item. The 2003-04 budget was reviewed and signed by the President June 5, 2003.

RESERVES

Recommendation 88

We recommend that PFC coordinate with the campus to establish a complete, written policy for the allocation of surplus funds/reserves.

Campus Response

We concur. A more-extensive reserve policy will be prepared and presented to PFC's Board of Directors by December, 2003.

RISK MANAGEMENT

Recommendation 89

We recommend that PFC:

a. Place invoices in sealed envelopes.
b. Provide and adequately secure the storage facility for inactive student records.
c. Destroy obsolete records when legally permissible.

Campus Response

We concur. The following actions have been taken in order to address these recommendations:

a. Parent invoices are placed in sealed envelopes; each child's envelope is secured to his or her sign-in sheet.
b. All inactive student records are placed in locked storage areas.
c. Records over five years old were destroyed in April 2003. Beginning in July 2003, records that are over five years old will be destroyed during the first month of the fiscal year.

PROGRAMS

Recommendation 90

We recommend that PFC develop and implement written policies and procedures regarding the application, review, acceptance, and administration of contracts and grants, if authorization to apply for and administer grants is received.

Campus Response

We concur. Appropriate procedures have been developed and implemented. For example, in the 2002-03 fiscal year PFC provided the Foundation with copies of all contracts, the 2002-03 budget, and program evaluation. In addition, a Project Information Form (PIF) was generated for each proposal. For 2003-04, the same procedures will be followed.

SEGREGATION OF DUTIES

Recommendation 91

We recommend that PFC properly segregate certain accounting functions for cash receipts and accounts receivable duties or institute mitigating procedures approved by the campus.

Campus Response

We concur. PFC will diagram and review accounting functions with the University's Chief Financial Officer by December 2003 to ensure proper segregation of duties.

CASH RECEIPTS AND HANDLING

Recommendation 92

We recommend that PFC:

a. Log all checks immediately upon receipt.
b. Use prenumbered deposit slips/receipts.
c. Restrictively endorse all checks immediately upon receipt.
d. Develop and implement procedures to ensure timely processing of receipts.

Campus Response

We concur. Appropriate procedures will be developed and implemented by December 2003.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Recommendation 93

We recommend that PFC:

a. Reconcile the accounts receivable subledger to the general ledger on a monthly basis.
b. Properly document the accounts receivable write-offs, including authorization and justification.
c. Ensure all accounts receivables and revenues are properly and timely recorded.

Campus Response

We concur. Appropriate procedures will be developed and implemented by December 2003.

UNRELATED BUSINESS INCOME

Recommendation 94

We recommend that PFC analyze and document its operations for UBI and file federal income tax returns as appropriate.

Campus Response

We concur. During the 2002-03 annual financial audit the external auditors will be instructed to analyze whether PFC is liable for UBI taxes on child care fees paid by community members. Appropriate income tax filings will be completed if deemed necessary. These actions will be completed by December 2003.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 95

We recommend that PFC develop policies and procedures to ensure cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. The new PFC accountant has been directed to fully review all cash disbursements received from the operating units for appropriate documentation prior to processing. Written procedures will be developed by September 15, 2003.

INFORMATION TECHNOLOGY

Recommendation 96

We recommend that PFC:

a. Establish written requirements for file security and backup and provide them to the campus department providing data processing services to PFC.

b. Ensure that only certain PFC individuals have read and update permissions to the files.

c. Define the required frequency of backup needed to support the organization, include provisions for remote storage of the backups, and specify a process for ongoing monitoring of such provisions.

Campus Response

We concur. PFC will work with appropriate campus personnel to develop and implement sound security, file backup, and access controls for our information systems. These controls should be operational by December 2003.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 97

We recommend that AS execute a written operating agreement with the CSU, listing all approved functions, in accordance with CSU policy.

Campus Response

We concur. We are currently working with campus officials to draft a new operating agreement that is consistent with CSU policy. We expect this task to be complete by September 1, 2003.

DISSOLUTION OF AUXILIARY

Recommendation 98

We recommend that AS amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.

Campus Response

We concur. The Associated Students amended its Articles of Incorporation in August 2002, those amendments were ratified by the University President in October 2002.

WRITTEN AGREEMENTS

Recommendation 99

We recommend that AS establish written agreements with the campus and other auxiliaries defining respective responsibilities.

Campus Response

We concur. The Associated Students is currently drafting MOUs with the appropriate partners. expect to complete all agreements by December 23, 2003.

BOARD MINUTES

Recommendation 100

We recommend that AS take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

Campus Response

We concur. ASI officers were notified of the need for corporate minutes to be signed, and all minutes have been signed by the Executive Vice President since August 2002.

BYLAWS

Recommendation 101

We recommend that AS revise its bylaws, addressing the timeframe of presidential approval and deleting references to obsolete policies, and file the revised bylaws with the Office of the Chancellor.

Campus Response

We concur. Associated Students bylaws were amended consistent with this recommendation, and have been in effect since May 2003.

SALARIES AND BENEFITS

Recommendation 102

We recommend that AS perform and document an analysis of all auxiliary and campus salaries, wages, and benefits.

Campus Response

We concur. We will work with the Fresno State Association to document and analyze auxiliary and campus salaries, wages and benefits. We expect that this process will be completed by December 23, 2003.

RESERVES

Recommendation 103

We recommend that AS coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

We concur. The Associated Students fiscal policy has been amended and adopted by the Student Senate, and approved by the University President.

EXPENDITURE AUTHORITY

Recommendation 104

We recommend that AS comply with its bylaws concerning the signing of contracts.

Campus Response

We concur. This issue was discussed during the bylaw revision process, and all parties are now aware of the requirements. In the future the advisor and chief financial officer will ensure that contracts are properly authorized.

FEES, REVENUES, AND RECEIVABLES

Recommendation 105

We recommend that AS obtain and review the student body association fee allocation for accuracy.

Campus Response

We concur. The campus will provide AS with a student fee reconciliation at the end of each semester. The first reconciliation, for the fall 2003 semester, will be provided to AS by December 31, 2003.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 106

We recommend that AS revise and appropriately distribute its policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Campus Response

We concur. Purchasing and accounts payable procedures have been revised accordingly, and will be distributed to the appropriate individuals in September 2003.

AUXILIARY PROGRAMS

Recommendation 107

We recommend that AS:

a. Develop policies and procedures to ensure that grant payments are not awarded until after the eligibility of the recipient is known.

b. Verify student and advisor signatures on the accepted grant applications and compare the signatures on the applications to those on subsequent grant expenditure requests.

c. Report all grants paid to students to the campus financial aid office.

Campus Response

We concur. The grant program has temporarily been suspended pending the implementation of adequate internal controls. We anticipate that new policies and procedures will be adopted by December 23, 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD
CHANNEL ISLANDS
CHICO
DOMINGUEZ HILLS
FRESNO
FULLERTON
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SAN FRANCISCO
SAN JOSE
SAN LUIS OBISPO
SAN MARCOS
SONOMA
STANISLAUS

September 2, 2003

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor

Charles B. Reed

SUBJECT: Draft Final Report Number 02-49 on *Auxiliary Organizations*, California State University, Fresno

In response to your memorandum of September 2, 2003, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Fresno.

CBR/amd

Enclosure

cc: Mr. J. Chris Robinson, Internal Auditor
Dr. John D. Welty, President

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